



**Annual Report
of the Bayerische
Motoren Werke
München
on the
1978 Business Year**

BMW AG



BMW

Year to Year Comparison

		1978	1977	Change %
Sales ¹⁾				
BMW AG	DM million	5,959.2	4,993.0	+19.4
BMW Group ²⁾	DM million	6,557.1	5,530.5	+18.6
Output				
Cars	units	320,853	290,236	+10.5
Motorbikes	units	29,580	31,515	- 6.1
Car sales				
Domestic	units	157,065	143,774	+ 9.2
Foreign	units	164,131	144,486	+13.6
Total	units	321,196	288,260	+11.4
Motorbike sales				
Domestic	units	8,329	6,668	+24.9
Foreign	units	18,263	24,563	-25.6
Total	units	26,592	31,231	-14.9
Personnel at end of year				
BMW AG		35,171	33,398	+ 5.3
BMW Group ²⁾		39,817	37,581	+ 5.9
Personnel expenses	DM million	1,439.2	1,350.8	+ 6.5
Balance sheet total	DM million	2,938.4	2,557.1	+14.9
Common stock	DM million	500.0	396.0	+26.3
Shareholders' equity	DM million	1,011.3	787.5	+28.4
Fixed assets	DM million	1,450.9	1,353.4	+ 7.2
Investments in tangible fixed assets	DM million	304.9	335.1	- 9.0
Depreciation on tangible fixed assets	DM million	249.6	222.5	+12.2
Net income	DM million	150.6	125.3	
Dividends	DM million	80.6 ³⁾	65.3	
per old share of DM 50 nominal value	DM	9.00 ³⁾	9.00	
	%	18 ³⁾	18	
per new share of DM 50 nominal value	DM	4.50 ³⁾	4.50	
(with dividend entitlement from July 1, 1978)	%	9 ³⁾	9	

¹⁾ Without value added tax

²⁾ The BMW Group comprises BMW AG and the domestic and foreign companies in which it holds indirect or direct interests of more than 50%

³⁾ Proposal of the Management

**Bayerische
Motoren Werke
Aktiengesellschaft
München**

**Annual Report
on the
1978 Business Year**

BMW AG

Contents

3	Report of the Supervisory Board
4	Report of the Managing Board
14	The BMW Production Program
16	Research and Development
19	The Automobiles of the Bayerischen Motoren Werke 1928–1978 (Photo documentary)
29	Personnel and Social Report
32	The Company and the Public
34	Subsidiaries
42	Finance
44	Notes on the Financial Statement of BMW AG
48	1978 Financial Statement of BMW AG
52	Consolidated Annual Report
53	Notes on the Consolidated Financial Statement (Domestic)
54	1978 Financial Statement of the BMW Concern
58	BMW AG Ten Year Survey
60	Supervisory Board, Managing Board

Report of the Supervisory Board

The Supervisory Board regularly exercised control over the management of the company throughout the business year. In joint meetings with the Managing Board and on the basis of the Managing Board's written and verbal reports it constantly kept itself informed on the company's situation, the course of business and the planned business policy, and conferred on the foregoing with the Managing Board.

The annual financial statement for the 1978 business year, the accounts and the annual report have been examined by the Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and were given the unqualified auditor's endorsement. The Supervisory Board agrees with the results of this.

The Supervisory Board has examined and approved the annual financial statement and annual report of the Bayerische Motoren Werke AG, prepared by the Managing Board. The financial statement is thereby confirmed.

The Managing Board's proposal to apply the balance sheet profit of DM 80.64 million to distribution of a dividend of DM 9.00 per share of DM 50 nominal value on common stock, entitled to full dividends (DM 396 million) and for distribution of a dividend of DM 4.50 per share, of DM 50 nominal value on common stock entitled to half dividends resulting from the increase in capital in June 1978 (DM 104 million), has been examined by the Supervisory Board which supports the proposal.

In accordance with the conclusive findings of the Supervisory Board's examination there are no grounds for objection.

The consolidated financial statement and the consolidated annual report both bearing the unqualified auditor's endorsement of the Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and also the report of the auditor thereof, were submitted to the Supervisory Board.

At the end of the shareholders' meeting on June 27, 1978, Messrs. Karl Theodor Jacob, Hans-Jürgen Koppenberg and Dr. Werner Uhde retired as members of the Supervisory Board. The Supervisory Board expresses its gratitude to these members for their meritable work.

The shareholders' meeting of June 27, 1978, elected Messrs. Eberhard von Heusinger, Dr. Guido G. Sandler and Dr. Kurt Wessing as new members of the Supervisory Board.

Munich, May 1979

The Supervisory Board
Dr. Herbert Quandt
Chairman

Report of the Managing Board

General

During the year 1978 hope for a constant and stable economic upswing in the Western countries was disappointed once again. In contrast the economic situation in the automobile industry was, almost without exception, favorable. For several years it has been the backbone of the development of the national economy.

During the year under review the automobile industry in West Germany again occupied a special position within the entire economic structure. Once again the thriving automobile production had a significantly favorable effect on employment in general and thus on economic growth. Production losses resulting from a labor dispute in the metal industry nevertheless weakened these positive effects. This occurred at a time when the dollar crisis, with its strain on foreign trade, curbed general economic expectations.

The business year 1978 for the Bayerische Motoren Werke was marked by the continuity of success. The prerequisites for this had been established in the preceding years with the introduction of new automobiles and engines, expansion of plants and the formation of new marketing companies. Demand and sales increased yet again. The market position was expanded both domestically and on the European and overseas markets. Despite expanded and fully utilized capacity, delivery dates remained long. The demand continued to shift to the higher priced BMW models. Under these conditions almost all business sectors developed favorably.

Worldwide Diminishing Differences in Economic Cycles

In the industrial countries of the Western world the economic development was characterized by the economic cycles gradually approximating each other during the course of the year. The economic growth differential between larger national economies was thereby decreased. However, the difference bet-

ween the situation of the car market and that of the total economy within individual countries was also reduced.

In Western Europe an upswing in the business cycle became apparent only late in the latter half of the year. The rise in real gross national product was 2.9%, only slightly higher than in the previous year. Despite all the stimulating measures, the goal of full employment did not move significantly nearer. In most countries unemployment could not be reduced. In 1978 there were just on six million unemployed in Europe, a quarter of a million more than in the previous year. In contrast many countries succeeded in cutting down their trade balance deficits and in reducing the inflation rates during the year. On West-European average, the consumer prices rose by barely 7% compared with 9.5% the previous year. At the same time the price reductions on the world raw material markets and the revaluation of almost all currencies against the US dollar, had a favorable effect; the costs incurred in direct labor costs also rose less steeply than in 1977.

The economic development in the USA, the most important foreign sales market for the German automobile industry, took different courses. Domestically successes were gained: for example, the real economic growth almost reached that of the previous year and unemployment was virtually reduced to full employment. However, inflation accelerated and the trade balance deficit increased again. The dollar fell even further compared with the previous year by an average of 5% against all currencies, by 15% against the DM and 22% against the Yen. This trend weakened during the first months of 1979 but will affect sales of the German automobile industry on the long run.

Delayed Economic Recovery in the Federal Republic of Germany

In 1978 hopes for a strong economic upswing in the Federal Republic of Germany were not fulfilled. In fact demand and production declined at the beginning of the year. In the latter half of the year the economic climate gradually improved, the improvement persisting sufficiently to increase the real gross national product by an average of 3.4% for the year (2.6% in 1977).

The services' sector expanded on a particularly large scale, whilst industrial output increased only by 2% compared with the previous year. Production in vehicle manufacture was only slightly higher. In contrast development in the construction industry was much more favorable. The basis for a lasting economic upswing has therefore been well stabilized.

The upswing in the latter half of 1978 was caused above all by increased investments. From autumn 1978 on the government stimulation programs created an additional private demand of approximately DM 17 billion for the year and also stimulated car sales.

Exports in 1978, however, resulted in slightly curbing effects on the domestic economy. Although the export volume was increased slightly more than in 1977, the rate of increase still remained below the increase in the real world trade volume. This development was not only a reflection of the restrained economic situation in important West-European customer countries but especially of the weakening competitive strength of German companies, resulting from a high cost level and the rising real value of the DM abroad. The import volume rose accordingly by 7% (1977: 4.3%). The proportion of imports on the domestic market reached 27%, a record level, having amounted to only about 21% in 1970.

The increase in imports had a favorable effect on consumer prices. Purchasing power in real terms also rose due to tax relief measures. The disposable income increased 3.8%, twice as

much as in the previous year and partly explains the high demand for cars lasting into the autumn of 1978.

The economic growth was sufficient to slightly improve the labor market situation. The number of unemployed was, for the first time since 1974, again below the million mark. Most of these were people difficult to place. Many companies are adversely affected more and more by the shortage of qualified labor.

Generally speaking, price stability in the Federal Republic of Germany improved. Industrial producer prices rose by only 1% and consumer prices by 2.6%. Important in this respect were the declining food prices and the stepped-up competition on all markets. Besides this, revaluation of the DM by 8.5% on a weighted average curbed the increase in import prices.

Continued High Demand for Cars in Most Countries

In 1978 despite many common features the development of the international car markets took different courses.

In the USA the number of passenger cars licensed was only 1% higher than the very high level of the previous year. Sales from domestic production increased by 2%; the import business declined.

In Japan the domestic demand rose by more than 14% to approximately 2.9 million units. The proportion of imported vehicles (1.7%) remained infinitely small compared to the international average of 21.5% (excluding Japan).

Western European markets also developed differently. In the markets of France, Belgium, the Netherlands and the Federal Republic of Germany, all having undergone considerable expansion in the previous years, demand continued at a high level but with considerably lower growth rates than in the previous years. In some countries, the number of licences was far above that of the previous year – despite rather curbed economic development: in Italy by 13%

and in Great Britain by 20%. In Switzerland, following an increase of 15% in 1977, demand rose again by 16% as a result of cheaper imports due to the rate of exchange.

In 1978 the car business in the Scandinavian countries and in Austria was unsatisfactory. The main reasons for this were the development of the national economy as well as government measures to curb imports. Thus the number of licences in Norway fell by 46%, in Sweden by 17% and in Denmark by 6%. The decline of 47% in Austria has to be considered together with the high sales in the previous year resulting from tax measures; the increase in 1977 was 31%.

World wide 31.4 million passenger cars and station wagons were produced in 1978. The growth rate of 2%, compared to 5.5% in the previous year, showed a clear decline.

The individual countries differ with respect to production increase. The Japanese automobile industry achieved the highest increase of 10%. With an output of almost 6 million vehicles its share in world production increased to approximately 19% (17.7% in 1977). There was no further increase in USA production compared with the high figure of 9.2 million units for the previous year.

Western Europe produced 11.6 million units. This was only slightly more than in 1977. Of the EEC countries the Federal Republic of Germany, with an increase of 2.6%, is still relatively far forward. The share of the EEC countries in world production dropped to 32%, after still having accounted for 42% in 1970. Losses in production as a result of social conflicts, capacity bottle-necks of individual manufacturers and influences due to rates of exchange became increasingly noticeable. In 1977 the EEC countries had for these reasons increased their production by only 3.1%, thus clearly below the total increase.

German Automobiles Still Popular

As in previous years, the automobile industry in West Germany in 1978 was one of the few expanding industries. Along with the construction industry it was the mainstay of the economic cycle. The sales in vehicle manufacture showed a real growth of 6.5%, almost twice the growth rate of the national economy; with DM 105 billion the industry became the second largest industrial sector, after the chemical industry in the Federal Republic of Germany.

Again the strongest demand originated from the domestic market absorbing 2.66 million passenger cars and station wagons so that a 4% increase in licensed vehicles was achieved over the previous year. Compared with an 11% increase in 1977, the demand however weakened.

This development had long been expected. The Federal Republic of Germany has the highest density of passenger cars in the Western European countries with a total of 21.6 million passenger cars and station wagons; for every 1,000 Germans, 353 owned a car, compared with 314 Italians and 284 British.

Domestic manufacturers achieved an increase in licences of 3%. They sold 2.08 million automobiles in the Federal Republic of Germany during 1978. The proportion of foreign makes rose by almost 1% to 22%. The foreign manufacturers profited from the revaluation of the DM. Thus American producers sold more than twice the number of automobiles in the Federal Republic of Germany than in the previous year. Japanese manufacturers also made great progress; their licences rose by 56% and their market share doubled within two years to 3.7%.

The increasing demand for vehicles with diesel engines is remarkable. The number of licences rose in the last two years by almost a third each year. Thus the diesel engine market share attained 6.1% in 1978 compared to 4.7% the previous year.

Exports by West German automobile producers were less satisfactory in 1978. After succeeding in selling 5.6% more passenger cars and station wagons abroad in 1977 than in the previous year, sales during the year under review decreased for the first time since 1975 by 1.8% to 1.9 million units. This caused the German manufacturers' export share to fall to 47% compared with 49% in the previous year.

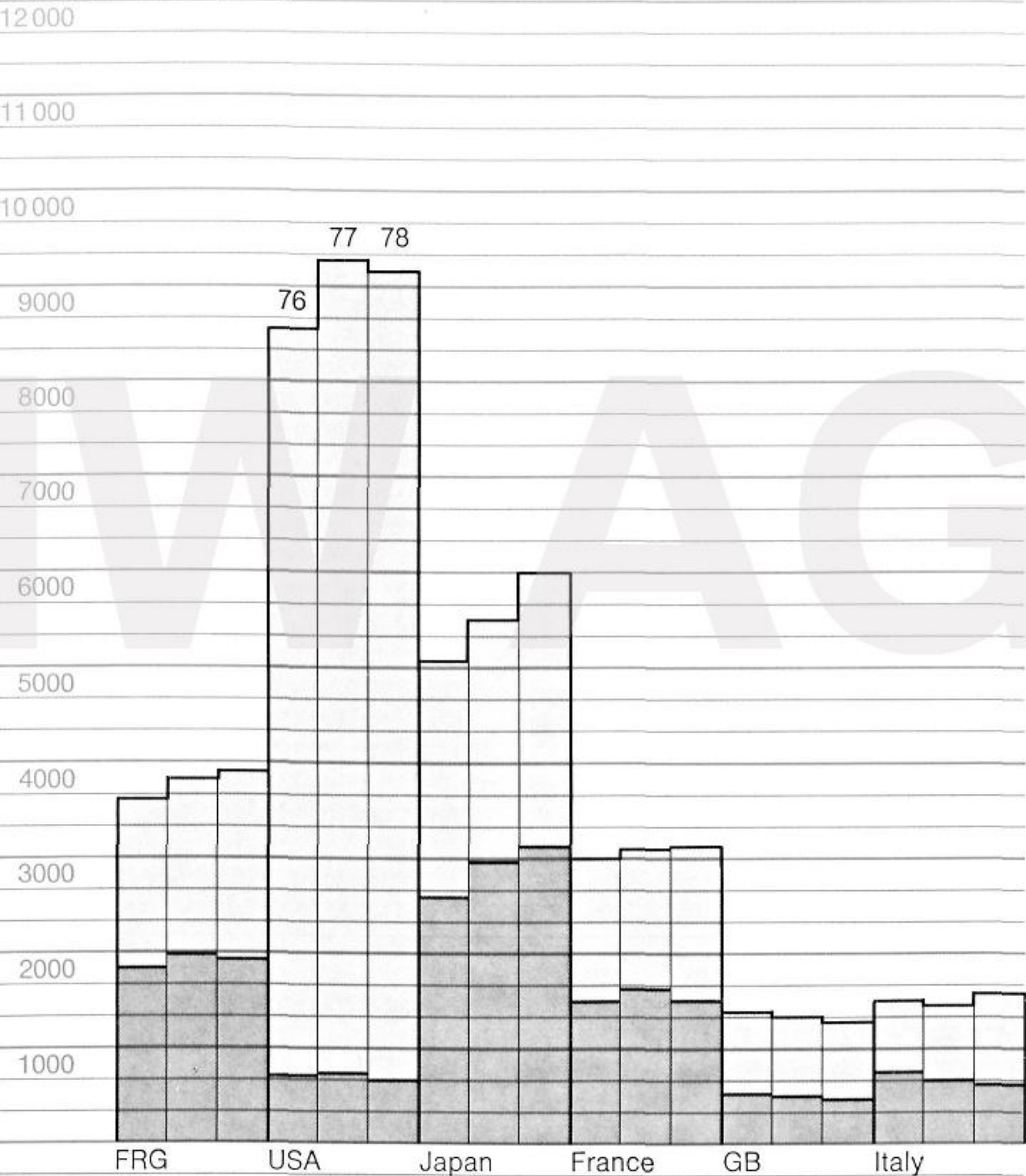
Reasons for this development were, on the one hand, delivery problems caused by strikes. On the other hand, some structural export problems became more acute. Price competition for the German automobile industry is increasing on the world markets, although model programs continue to be technically and qualitatively of a high standard. Domestic producers head the international wage scale with increasing disparity. Labor costs, amounting to DM 24.44 per hour in 1978 were between 14% and 156% above those of competing producers in established car-producing countries such as the USA and Great Britain. Added to this are the effects of the renewed high revaluation of the DM, making German automobiles more expensive on foreign markets by an average of 12% in 1978. Only parts and materials purchased abroad had a certain price stabilizing effect due to the exchange rate.

Strikes in ancillary industries abroad and in the transport industry and delivery blockades led to bottle-necks in the supply of parts and raw materials. Added to this there were domestic labor disputes. Due to the concentration of ancillary industries in Nordwürttemberg/Nordbaden the results of the wage disputes in the metalworking industry here were felt by the entire German automobile and motorbike industry. Besides this, there were strikes in the automobile factories in this area.

As a result of losses in production German car and station wagon manufacturers produced 3.89 million units in 1978, only 2.6% more than in the previous year. The West German auto-

The Big International Automobile Markets

car production in 1,000 units
thereof for export (dark)



mobile production thus grew at approximately the same rate as in the whole world. German manufacturers retained their 12% share.

Continuity of Success at BMW

For BMW the year 1978 was marked by continued business success. The model measures undertaken in the previous year – the introduction of the new 7-series' limousines and the small six-cylinder engines – especially contributed to this.

This further stimulated the consistent large demand for BMW automobiles. Order backlog and delivery times continued to increase as in the previous year, although daily production was increased from 1,300 units at the end of 1977 to 1,420 units at the end of 1978. Six cylinder engines comprised over 60% of production after reaching only about 30% in the previous year. From now on twelve of the fifteen BMW models will be equipped with a six-cylinder engine. Of all the BMW 3-series cars, 45% were built with six-cylinder engines in 1978.

The increasing production made it necessary to further increase the labor force. At the end of 1978 BMW AG's personnel was 35,171, 5.3% higher than at the same time in the previous year. The BMW Group personnel total including domestic and foreign subsidiaries was 39,817 at this time.

Production to the Limits of Capacity

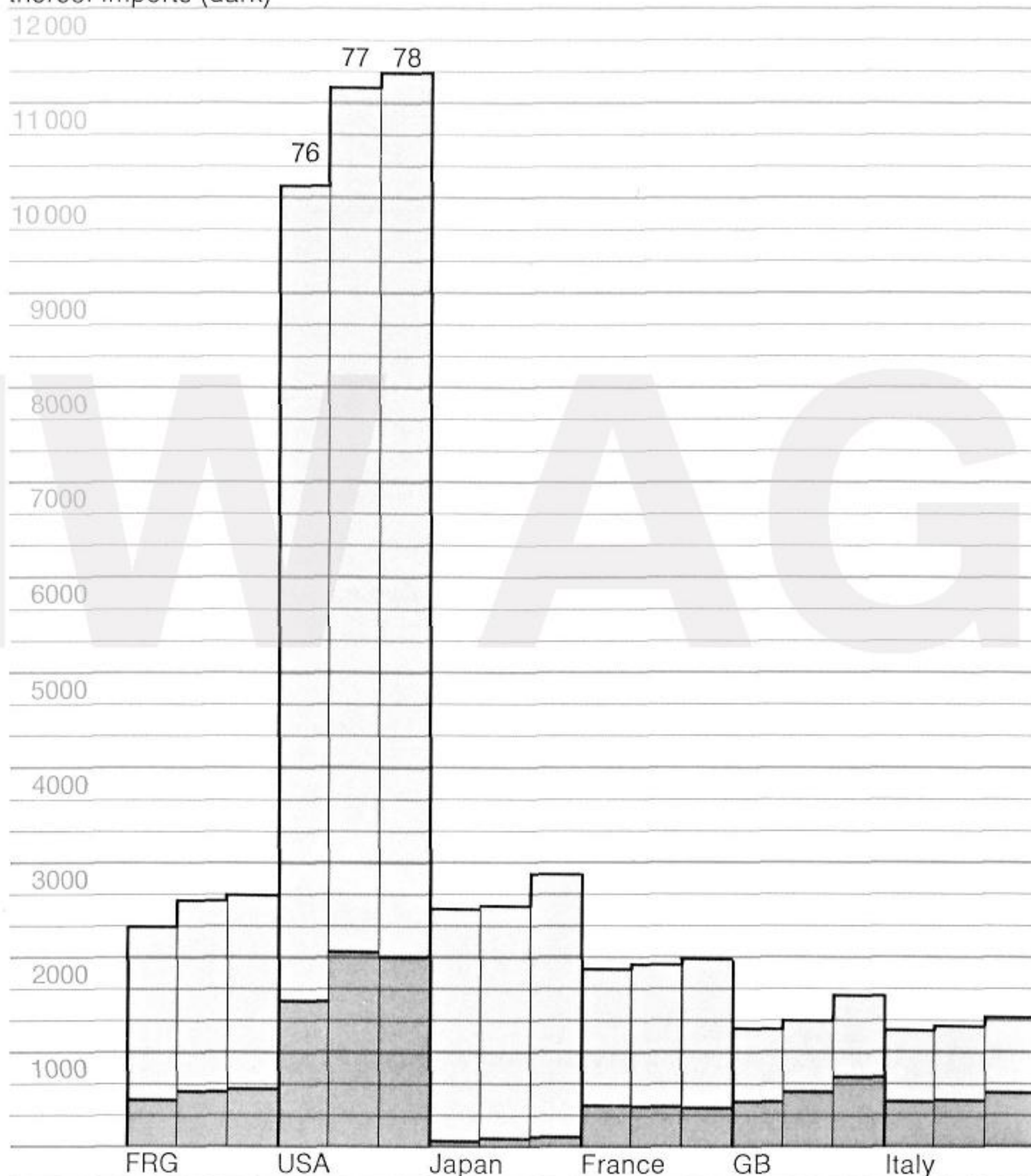
Working at full capacity, BMW produced 320,853 automobiles in 1978, 10.5% more than in 1977. This production increase would not have been possible without the structural improvements in the plants undertaken the year before with the introduction of the BMW 7-series, and without extra shifts and overtime in almost all sectors of the company.

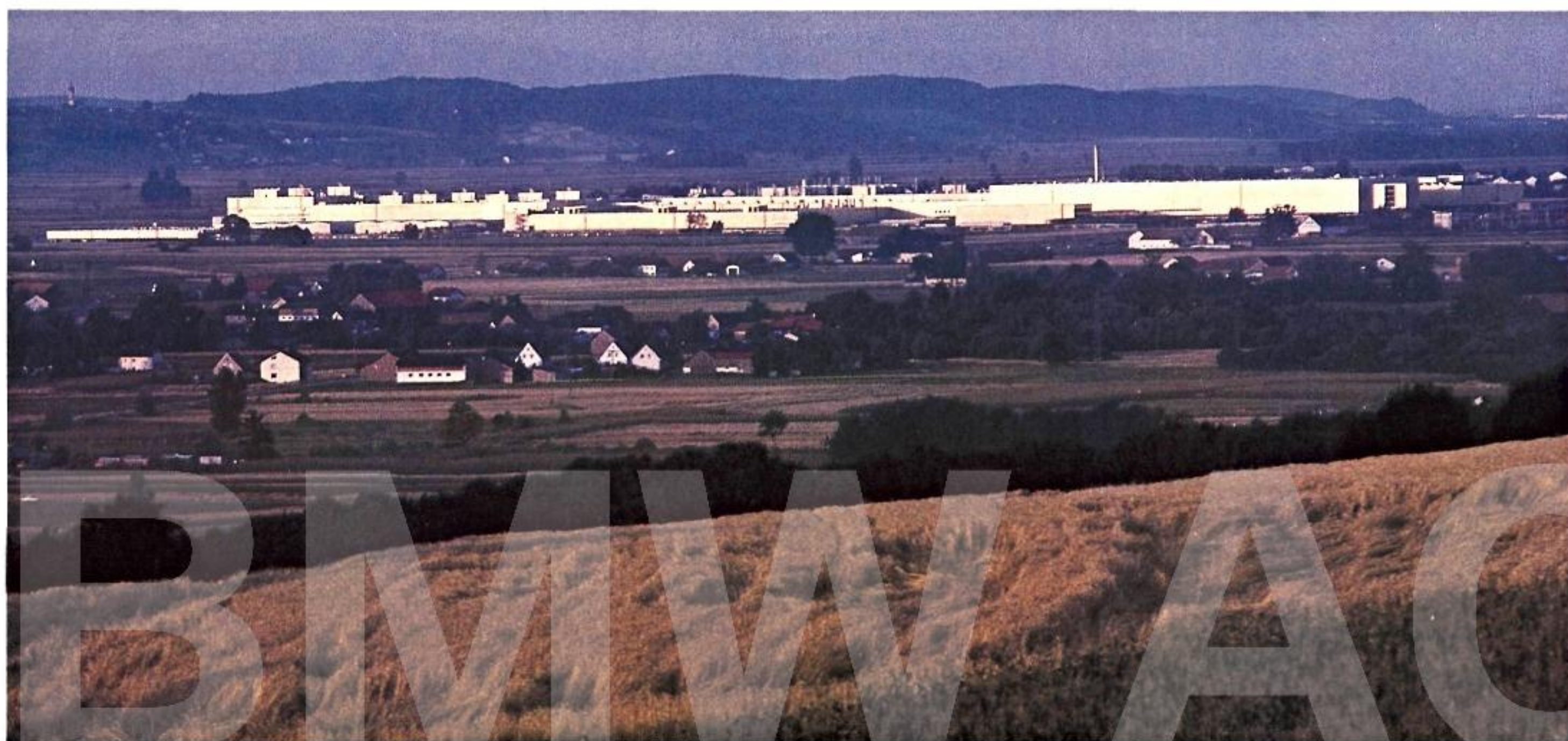
The daily production at the Munich plant, that is of the BMW 3-series, was increased at the end of the year to over 800 units. In November 1978 the 500,000th BMW of this series left the assembly line since its introduction in the autumn of 1975. No other BMW auto-

The Big International Automobile Markets

car licences in 1,000 units

thereof imports (dark)





mobile has been produced in such numbers in such a short time.

In the Dingolfing plant the daily output was increased in the course of the year to a total of over 600 automobiles. More units of all three model series — 5, 6 and 7 — were produced.

The development in production during 1978 was strongly influenced by the high demand for models with the new small six-cylinder engines. The models built with this engine — 320, 520 and 323i, production of the last model having started up in 1978 — made up 37% of the total production. With the introduction of the small six-cylinders, 26% more of the corresponding models were sold than in the previous year.

As a result of rationalization investments and intensive time study work, a considerable increase in productivity was achieved in 1978. The manufacturing process was rendered altogether more efficient and the plants were modernized by expansion and supplementing measures. Improved environmental controls — especially in the factory paint shops — and improved working conditions were given greater con-

sideration. Following the expansion over the last few years and the introduction of new vehicles and engines, the consolidation phase proved indispensable. The production process will also undergo planned improvement in the future, with the increased introduction of new production methods — like computer-controlled operating systems and flexible systems of production.

Capacity was also increased in 1978. Expansion continued to be moderate as in the previous years since it was geared towards the constant long term demand.

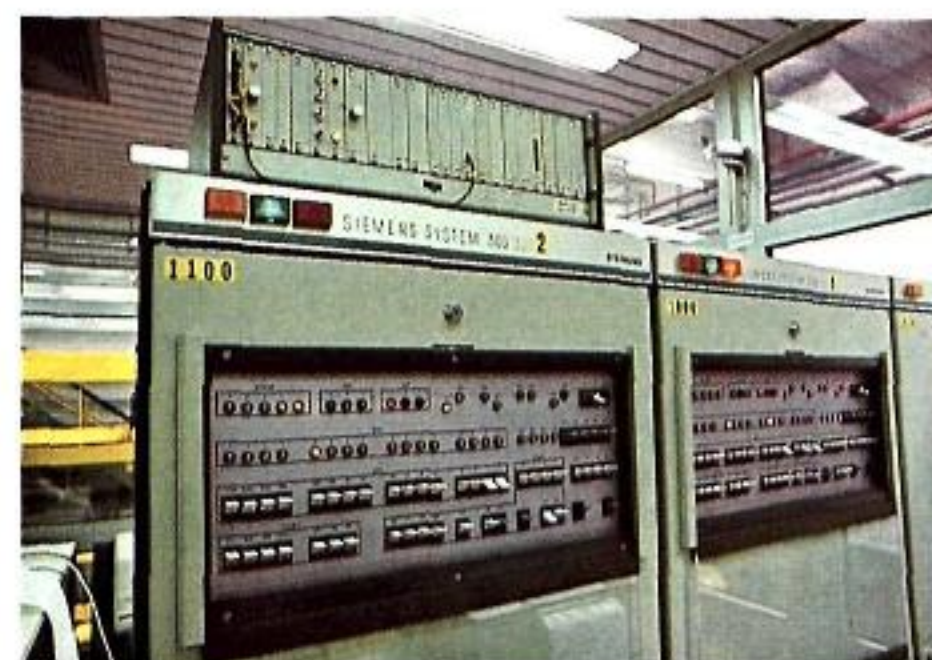
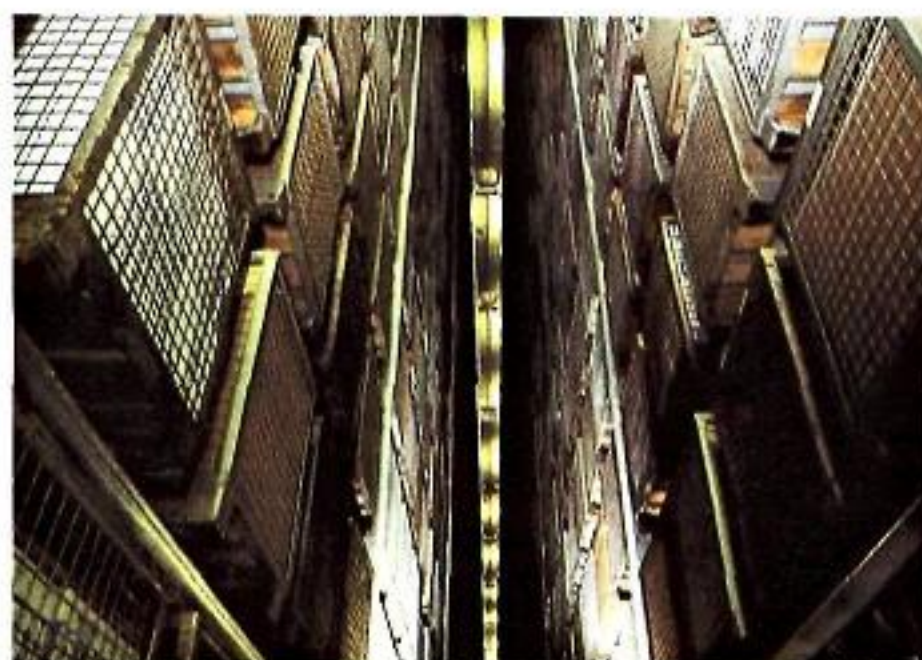
Investments in research and development increased by a third compared to 1977; this is also an indication of the importance the company attaches to the future assignments in this sector.

All in all BMW AG invested DM 305 million in tangible fixed assets. The volume was lower than in the previous year owing to extensive projects whose realisation will lead to larger increases in tangible fixed assets in the coming years.

The body factory in Dingolfing has been extended year by year since starting operation in October 1973 without ruining the Lower Bavarian landscape. The social structure of the area has remained unchanged.

To the right:

The new high rack warehouse for BMW parts has been in operation since April 1978. The 40 meter high building provides space for about 36,000 wire box pallets. A computer in the control center allocates storage space, carries out moving and control orders for all the conveying mechanisms and includes all movements of material. All procedures are fully automatic; only two employees in the control center handle over 2,000 incoming and outgoing orders per day.



Growing International Influences in Purchasing and Logistics

During the year under review wage and labor disputes in the Federal Republic of Germany created serious problems as regards purchasing and logistics. As a result of the three week strike in the metalworking industry in Nordwürttemberg/Nordbaden early in 1978, BMW suffered bottle-necks in supplies which even with precautionary material disposition and new purchasing sources could not be entirely overcome. Car production was thus interrupted for four days and motorbike production for nine days. The wage disputes in the steel industry of Nordrhein-Westfalen, Osnabrück and Bremen lasted approximately six weeks from the end of November 1978. Exceptional efforts by domestic and foreign suppliers prevented further production losses. Express thanks go here to the ancillary industry.

In 1978 domestic suppliers were increasingly confronted with international competition, since foreign producers are finding themselves more and more in a position to cover the German car in-

dustry's needs. This is due, besides the increase in knowhow, to more favorable price structures and – especially in 1978 – to the development of exchange rate parities. BMW AG has also taken advantage of these opportunities so that imports have increased overproportionally in the last few years. Purchasing channels are still meticulously examined; as always high standards regarding the quality of the goods and the long term guarantee of supply constitute the guidelines of the purchasing policy.

The purchasing volume of the foreign assembly plants also increased. The supply of sub-assembly parts was rendered more flexible by logistics; this enabled the assembly partners to react more quickly to market changes.

Worldwide Increase in Demand for BMW Automobiles

In 1978, 321,196 BMW automobiles were sold, 11% more than in the previous year. Again demand exceeded the delivery capacities of the factories. Order backlogs surpassed the high volume of the previous year again by 9%, whilst altogether the branch registered a decrease of 2%. Efforts to top up factory, dealer and importer stocks to the normal level failed. Both domestic and foreign customers had to put up with waiting times.

During 1978, in the Federal Republic of Germany, 154,567 BMW automobiles were first licensed. This is approximately 10% more than in 1977. The market share increased to 5.9%. Compared with the previous year the market position was further secured in all comparative classes. Even in the first year following their introduction, the large limousines of the 7-series attained a share of approximately 23% of their comparative class.

In 1978 14% more BMW automobiles were exported than in the previous year. Thus the export share was 51%.

Although the foreign markets were given delivery precedence for strategical reasons, the order backlogs at the end of 1978 were again 10% above the level of the previous year. The share of BMW automobiles of the total German automobiles exported, rose from 7.7% in the previous year to 8.9%.

There were different developments on the individual export markets. Deliveries to the neighbouring European countries and overseas were increased considerably. The particularly difficult US market absorbed some 36,000 vehicles. This is 26% more than in 1977 and 11% of the total BMW production. Second was Italy with a BMW volume 30% higher than in 1977. 21% more automobiles were sold to Great Britain. The BMW licences in the eight most important West-European markets and in the USA increased on average by 15%. The total number of licences in these nine countries increased by only 3%.

Contrary to these developments, BMW exports to the Scandinavian countries and to Austria declined; this was due to problems in the domestic economy and to restrictive tax measures.

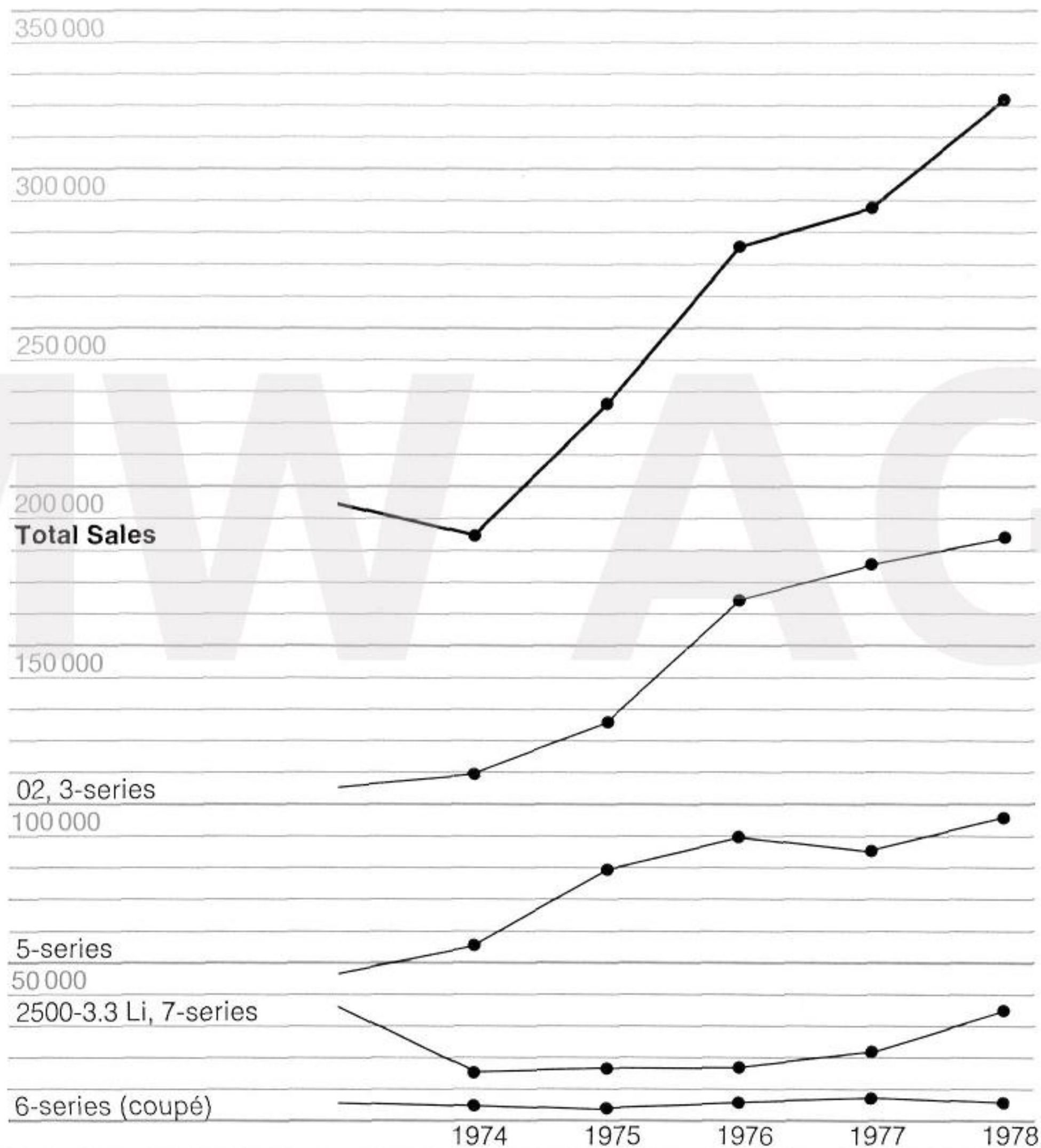
All BMW model series contributed to the expansion of exports. Also foreign sales of the large BMW limousines were above average. Exports of the 6- and 7-series were more than 50% higher than in the previous year. The large BMW automobiles were among those with the highest sales in their class in the most important European markets.

New BMW Automobiles

The models introduced in 1978 achieved success both on the domestic and foreign markets: The BMW 323i has the longest delivery time of all BMW automobiles. In the middle of 1978 the BMW 6-series was extended by a high-performance model, the 635 CSi coupé. This is the first time BMW has produced a standard 3.5 liter engine and a five-speed transmission. This leading model in sportiness and comfort is presently the BMW coupé most in demand. With the introduction of the M 1 in July 1978

BMW Car Sales

(in units)



Total Sales	184,330	226,688	275,596	288,260	321,196
Domestic	85,641	120,553	135,994	143,774	157,065
Foreign	98,689	106,135	139,602	144,486	164,131
02, 3-series	109,648	127,798	163,519	175,094	183,793
5-series	55,790	79,982	89,715	85,318	96,065
2500-3.3 Li, 7-series	15,876	17,032	17,912	21,748	35,728
6-series (Coupé)	3,016	1,876	4,450	6,100	5,610

BMW presented its fastest series sports car. The BMW M 1 although designed for racing has been approved for road traffic in a modified form but still retaining all the main constructional characteristics. This version has been available since March 1979.

High Investments in the Dealer Organization

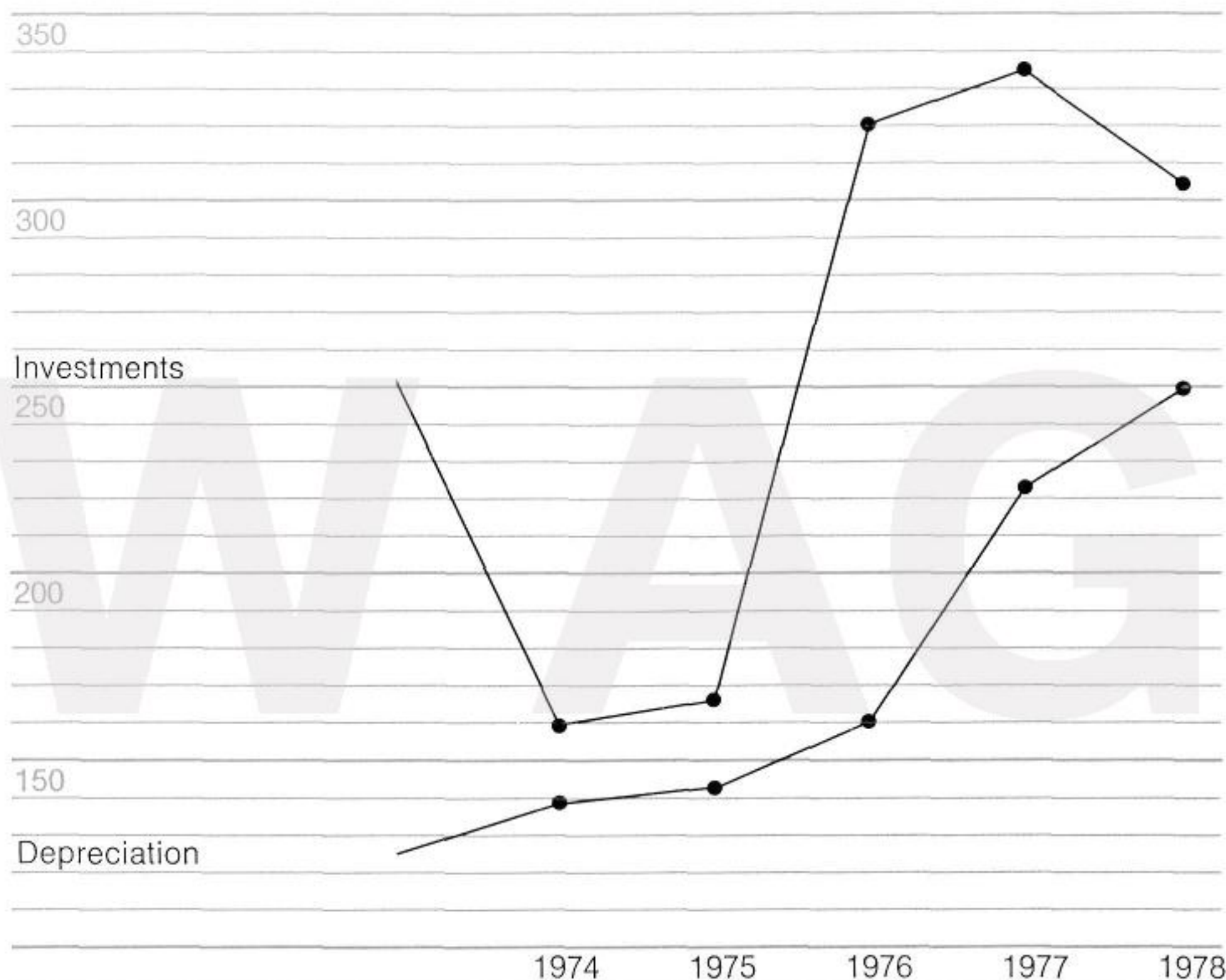
In 1978 the number of BMW automobiles worldwide rose by 11% to 2 million vehicles. Thus the demands made on the BMW dealer organization increased. In 1978 there were over 3,000 BMW workshops in 105 countries, with some 33,000 employees, providing BMW drivers with both professional and individual customer service.

The punctual supply of genuine BMW spare parts is also important for this. The range of parts consists of almost 40,000 items. A new computer-controlled high rack warehouse came into operation in April 1978 at the Dingolfing plant after an eighteen month's construction period. Around DM 27 million were invested in the installation. Working fully automatically, 2,000 items can be put into or taken out of store daily. Orders are transmitted from head office in Munich via terminals. The volume of parts delivered during 1978 corresponded to the contents of some 4,500 wagons with a total length of about 65 kilometers.

During the course of 1978 almost a hundred out of just over a thousand domestic dealers adapted their workshops to keep up with increased business by putting up new buildings or extensions. Additionally a further 130 BMW dealers are presently expanding and this work will be completed in 1979.

Investments in and Depreciation on Tangible Fixed Assets of BMW AG

DM million



Investments	159,4	167,3	320,8	335,1	304,9
Depreciation	139,4	142,8	160,5	222,5	249,6
DM million					



The new Stuttgart BMW regional office is located near the Vaihingen highway crossing. Over 3,000 new and used automobiles, motorbikes and spare parts are sold here annually. Of the 160 employees, over 30 are apprentices. The number of apprenticeships has doubled since the opening.

In order to maintain the high degree of satisfaction shown by BMW customers with their workshops, the training of customer service employees was continued and expanded during 1978. This involved ten thousand employees from the whole dealer organization being trained on the latest developments in their field; this is 25% higher than in the previous year. Four mobile training teams have been available since 1978 for regional instruction in Germany. Their job is to train BMW service employees even more efficiently.

The company-owned regional offices were also expanded. Frankfurt/M. and Offenbach were extended. Brand new premises were built in Stuttgart covering a surface area of 14,000 sq. metres.

New BMW Companies

Most subsidiaries and related companies were also successful in 1978. The BMW Motorrad GmbH, on the other hand, was unable to keep up its positive sales trend. Domestic sales did in fact rise due to successful new models; considerable losses were recorded in the export business as a result of cur-

rency trends. The traditionally high export share and the very keen competition particularly from the Japanese, adversely affected the business results.

Sales activities were further internationalized during the year under review. The sales organizations of existing subsidiaries were expanded to enable crisis-proof operation close to the market in important customer countries. Additional foreign companies were either founded or taken over for the import and marketing of BMW vehicles.

At the beginning of 1978 BMW Austria Ges.m.b.H. located in Salzburg started operations. On January 1, 1979 BMW bought out the shareholdings of the former Dutch import firm which had been importing and selling BMW automobiles since 1961. The company has continued to operate as BMW Nederland B. V. The Australian importer of BMW automobiles and motorbikes, BMW (Australia) Pty. Ltd., became a fully owned subsidiary on January 1, 1979. This means that three quarters of all automobile sales abroad will be effected through BMW-owned companies compared with two thirds in the previous year. In Britain a BMW owned marketing company will take over the import and sales of BMW vehicles from January 1, 1980.

In future BMW will expand development and production operations abroad. The BMW-STEYR Motoren Ges.m.b.H. founded in the beginning of 1979 and based in Steyr, Upper Austria is jointly owned by BMW AG Munich and STEYR-Daimler-Puch AG, Vienna with an interest of 50% each. The new company will develop, produce and sell diesel engines. This cooperation makes it possible for BMW to participate in the continuing market trend towards diesel engines in vehicles and stationary installations. The BMW-STEYR Motoren Gesellschaft is going to build a diesel engine plant in Steyr.

Favorable Company Figures

The sales of BMW AG in 1978 rose by 19.4% to DM 5,959 billion. Of this, DM 3,120 billion was attributable to domestic business and DM 2,839 billion to export.

The rise in nominal sales is both attributable to the increased physical sales and to the further shift in demand to higher priced models. Price increases also played a role. Domestically the non-binding price recommendations for BMW automobiles were raised in May, 1978 by an average of 3.6% which on an annual average meant an increase of 1.6%. Taking into account the changes in rates of exchange and the specific competitive positions on the individual markets, export prices were also increased.

BMW importers and subsidiaries had to announce comparable price increases. Thus on account of the exchange rate development, BMW of North America Inc. had to raise their prices three times during the course of the business year in order to prevent a dumping charge. In Switzerland, on the other hand, there were price reductions. BMW (Schweiz) AG passed on the advantages due to the exchange rate to the buyers four times during the course of the year. The sales of the BMW Group increased in 1978 by 18.6% to DM 6,557 billion.

The favorable market conditions, a better product mix and the good utilization of capacity resulted in a net income of DM 150.6 million.

Economic Situation of the Car Industry in 1979

The general business upswing continued in the Federal Republic of Germany during the first few months of 1979. All in all indications for the moment are that the economic upswing will continue.

The sudden loss of Iran as one of the main oil suppliers of the Federal Republic of Germany and as an important consumer of West German industrial goods makes it very clear how quickly the real basis of optimistic prognoses can

be destroyed. Temporary interruptions in the energy supply and at least a considerable increase in the price of crude oil and petrochemical products forming the basis of plastics and paints are to be expected. This also holds true for some irreplaceable raw materials connected with automobile production. Owing to the political situation there have already been delivery breakdowns resulting in price increases for the present.

In view of the unstable basic conditions affecting the national economy, especially the possible renewed fuel shortage and an increase in the fuel price, the future course of the automobile business in 1979 must be carefully assessed. At present there are indications that the domestic demand for automobiles is moving towards the longer-term and much flatter trend. The limits of the growth margin for the domestic market have probably become apparent. However, during 1979 the domestic demand will remain the most important backing of the automobile business. The trend in foreign demand is uncertain. Indeed, the newly-founded European currency system may bring about a greater degree of synchronism in Europe at least, but further revaluations of the DM especially against the dollar are in no way excluded.

Taking into account all these uncertainties, stabilization of production and sales at the same high level as in 1978 would be an outright success for the automobile sector.

BMW 1979: Consolidation at a High Level

During the first few months of 1979 the demand for BMW vehicles was still satisfactory. The order backlogs, however, did not increase, but production is secured up till the end of the year.

The BMW Concern's long-term investment plans are designed to increase productivity, to fulfill the technical requirements made on the products and to meet the needs of the labor force for a modern working environment. In the next five years investments in tangible

fixed assets will therefore be considerably higher than in the past five years.

In view of the market and currency fluctuations, the subsidiaries and related companies will presumably not develop uniformly in the current business year. Especially in the motorbike market, the competition situation is extremely keen. Currency influences still dominate here.

From the long-term point of view there are no fundamentally negative development tendencies expected on the automobile or motorbike markets. However, the result of the large increase in the number of automobiles and the growing importance of replacement demand, buyers will in the future react more sensitively to changes in the financial or economic conditions than in the past. Stronger fluctuations in the demand for cars can therefore not be excluded.

The tendency for many countries to meet structural difficulties with protectionist measures will always be a cause of worry. Because of its high dependency on export, industry in the Federal Republic of Germany would be severely affected, even more severely the automobile industry, where every second job is dependent on foreign sales.

As a result of these middle-term pending problems, the Managing Board of BMW AG makes securing the growth attained in the last few years, consolidating the company in its entire structure and preparing for future challenges of the market, its first priority.

The BMW Production Program

R 45

473 cc
20/26 DIN kW (27/35 hp)



R 65

650 cc
33 DIN kW (45 hp)



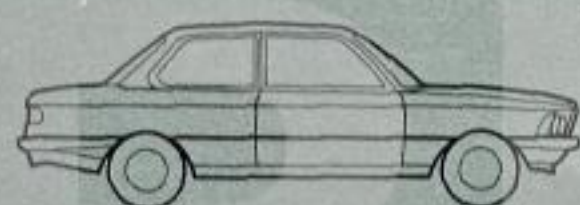
R 80/7

798 cc
37/40 DIN kW (50/55 hp)



316

1573 cc
66 DIN kW (90 hp)



318

1766 cc
72 DIN kW (98 hp)



320

1990 cc
90 DIN kW (122 hp)



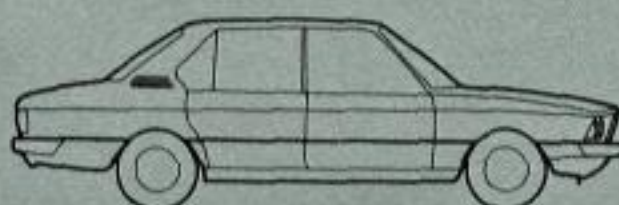
518

1766 cc
66 DIN kW (90 hp)



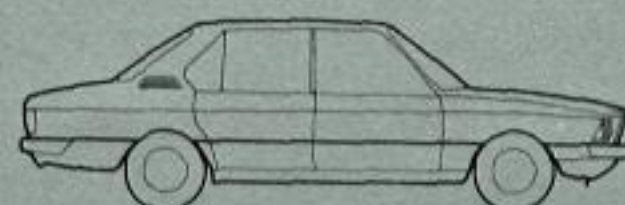
520

1990 cc
90 DIN kW (122 hp)



525

2494 cc
110 DIN kW (150 hp)



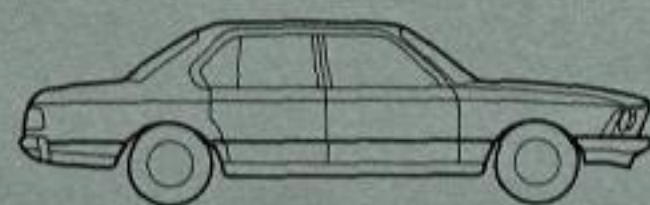
728

2788 cc
125 DIN kW (170 hp)



730

2986 cc
135 DIN kW (184 hp)



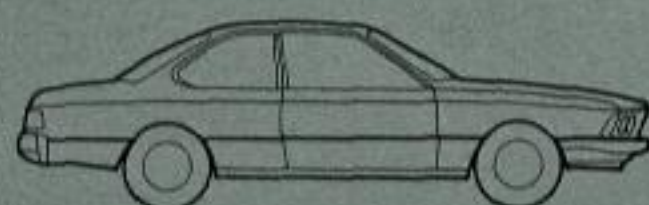
733i

3210 cc
145 DIN kW (197 hp)



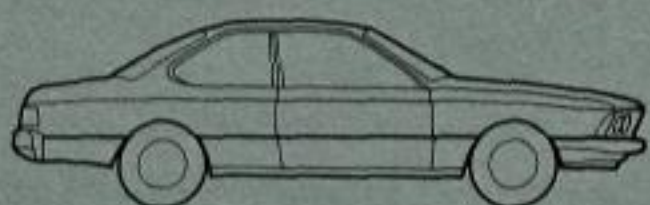
630 CS

2986 cc
135 DIN kW (184 hp)



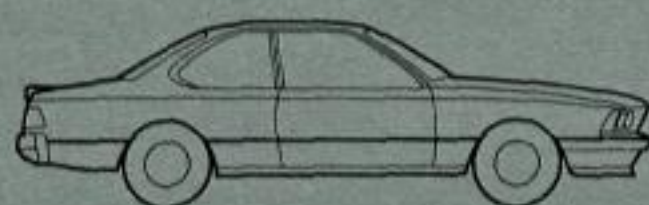
633 CSI

3210 cc
145 DIN kW (197 hp)



635 CSI

3453 cc
160 DIN kW (218 hp)



April 1979

R 100 T

980 cc
47 DIN kW (65 hp)

**R 100 S**

980 cc
51 DIN kW (70 hp)

**R 100 RT**

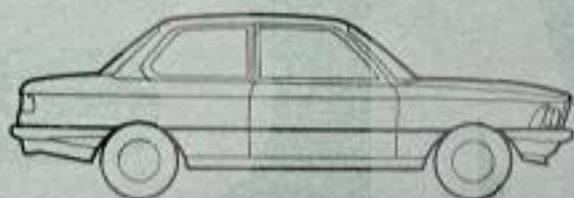
980 cc
51 DIN kW (70 hp)

**R 100 RS**

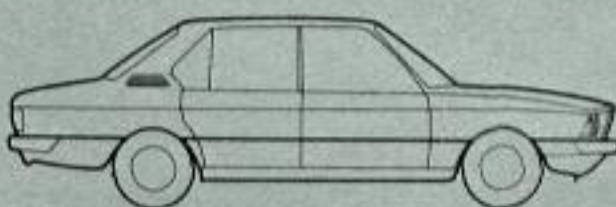
980 cc
51 DIN kW (70 hp)

**323i**

2315 cc
105 DIN kW (143 hp)

**528i**

2788 cc
135 DIN kW (184 hp)

**M 1**

3453 cc
204 DIN kW (277 hp)

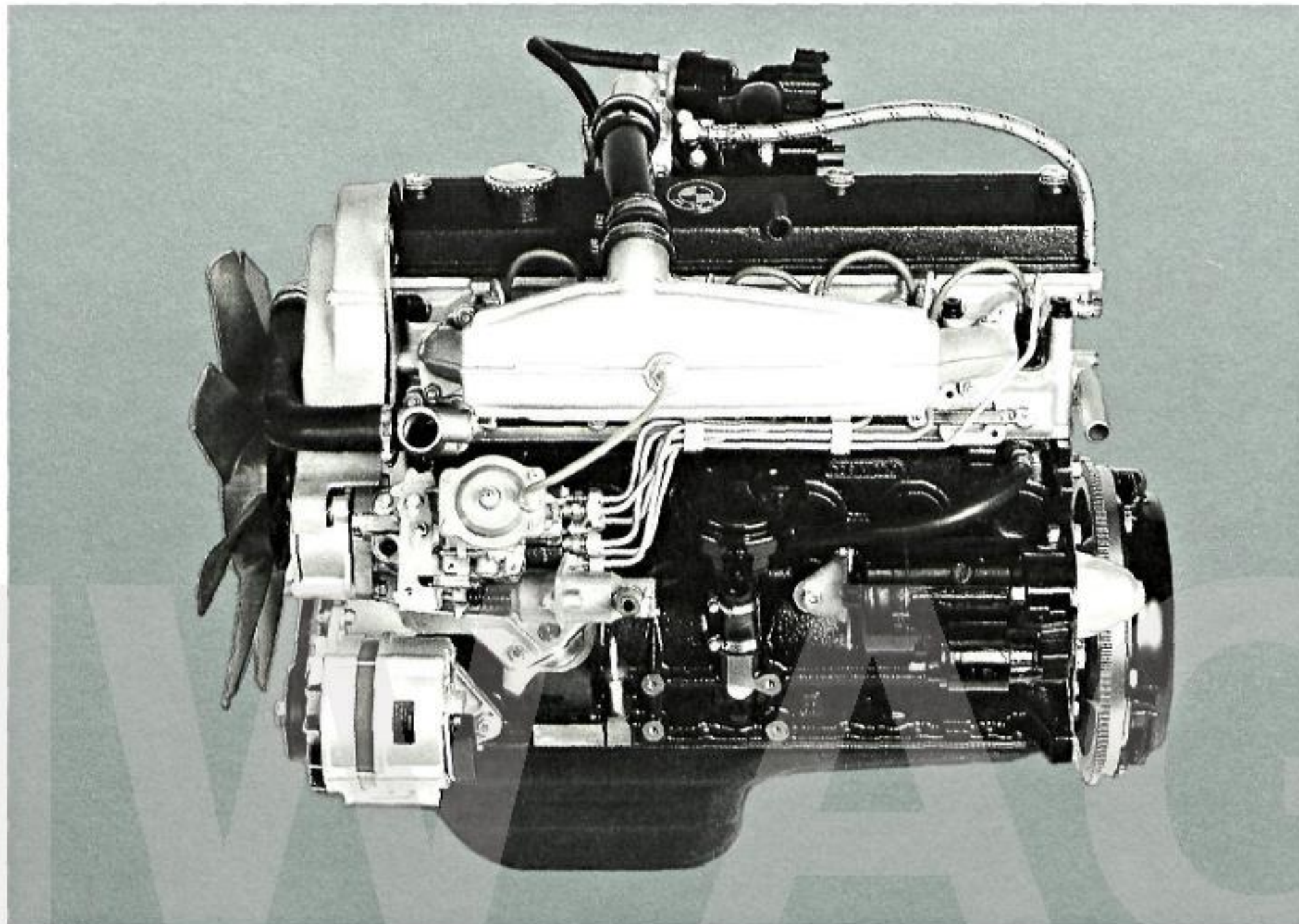


Research and Development

Public discussion as to future automobile trends was dominated again in 1978 by themes concerning environmental control and energy saving. An essential development goal was thus marked out for the automobile industry. This goal is all the more difficult to reach now that automobile technology as a whole has reached such a high level. Since, in addition to this, the legislation in the individual countries is not unified, the expenses incurring for improvements and developments are rising out of proportion in relation to the cost structure as a whole.

As the producer of an exclusive program for an international clientele, BMW is thereby presented with a special challenge. For this reason the potential concerning research and development was once again considerably increased during the year under review; capital expenditures and manpower were equally affected.

As a result of consistent further developments, series production of a number of new engines was started up in 1978 thereby supplementing and extending the automobile program: the new 2.3 liter six-cylinder injection engine with 105 kW (143 hp) for the BMW 323i has been in production since the beginning of 1978. In the large six-cylinder engine BMW series, a 3.5 liter injection engine was developed for the BMW coupé 635 CSi, the new top model in the 6-series. It has a performance of 160 kW (218 hp). This engine is also produced in modified form with 4 valves per cylinder in the BMW M 1 sports car. The road traffic version of this has a performance of 204 kW (277 hp) and the various racing versions with turbo supercharging to more than 588 kW (800 hp).

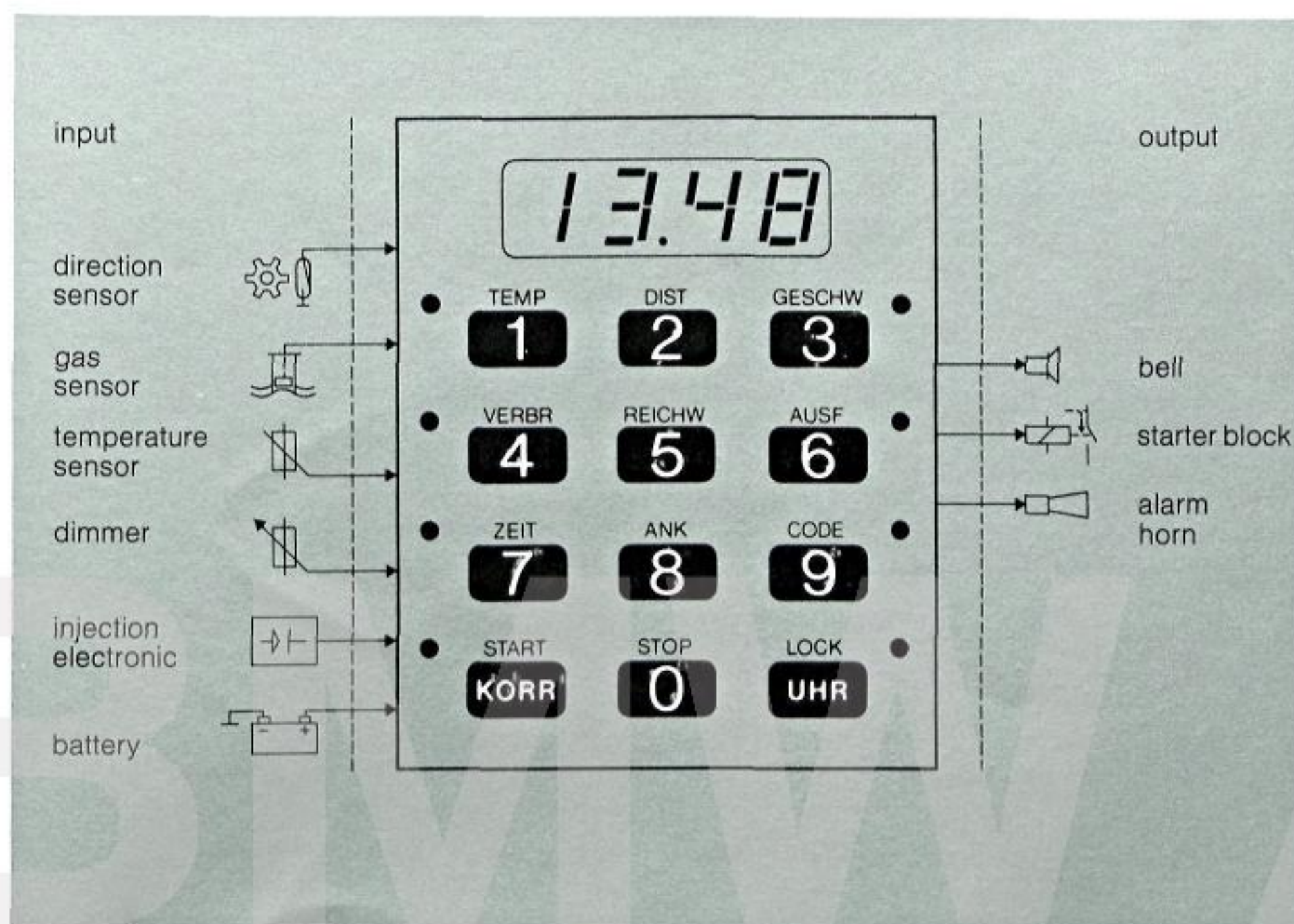


Two new BMW engine concepts were introduced to the public during the year under review: the turbo diesel engine and a petrol engine with optimized petrol consumption, the BMW ETA engine, with a fuel saving of about 15% due to a series of measures. These include a special combustion area with increased compression, reduction in the number of revolutions and connected with this reduced throttling losses and losses due to mechanical friction. The BMW turbo diesel engine uses 20% less fuel than the conventional petrol engine. It is even more economical for chiefly part-load and short distance driving.

These new engines will go into series production in the foreseeable future. They provide a possible solution to the conflict of goals between the extreme demands and the simultaneous reduction in consumption and emission values on special markets. With the introduction of these engines the specific qualities of BMW engines such as high level of performance and smooth running will not be sacrificed.

BMW six cylinder diesel engine with exhaust turbo charger. The unit is at the testing stage. Its characteristics are low consumption and high performance with light weight.

To the right:
Electronics are increasingly being used in automobile production. The wiring diagram of the newly developed on-board computer displays the information which will be available for the driver in the future.



As mentioned in the previous year construction work on a research and development center for the aerodynamical and air-conditioning systems was continued. It will come into operation at the end of 1979. This means that the aerodynamics and air-conditioning of new BMW vehicles can be researched and tested even more intensively and the technical design of the vehicles optimized. Meticulously regulated heating, cooling and air-conditioning installations are important for BMW automobiles due to the fact that growing numbers are being exported to countries with extreme climatic conditions.

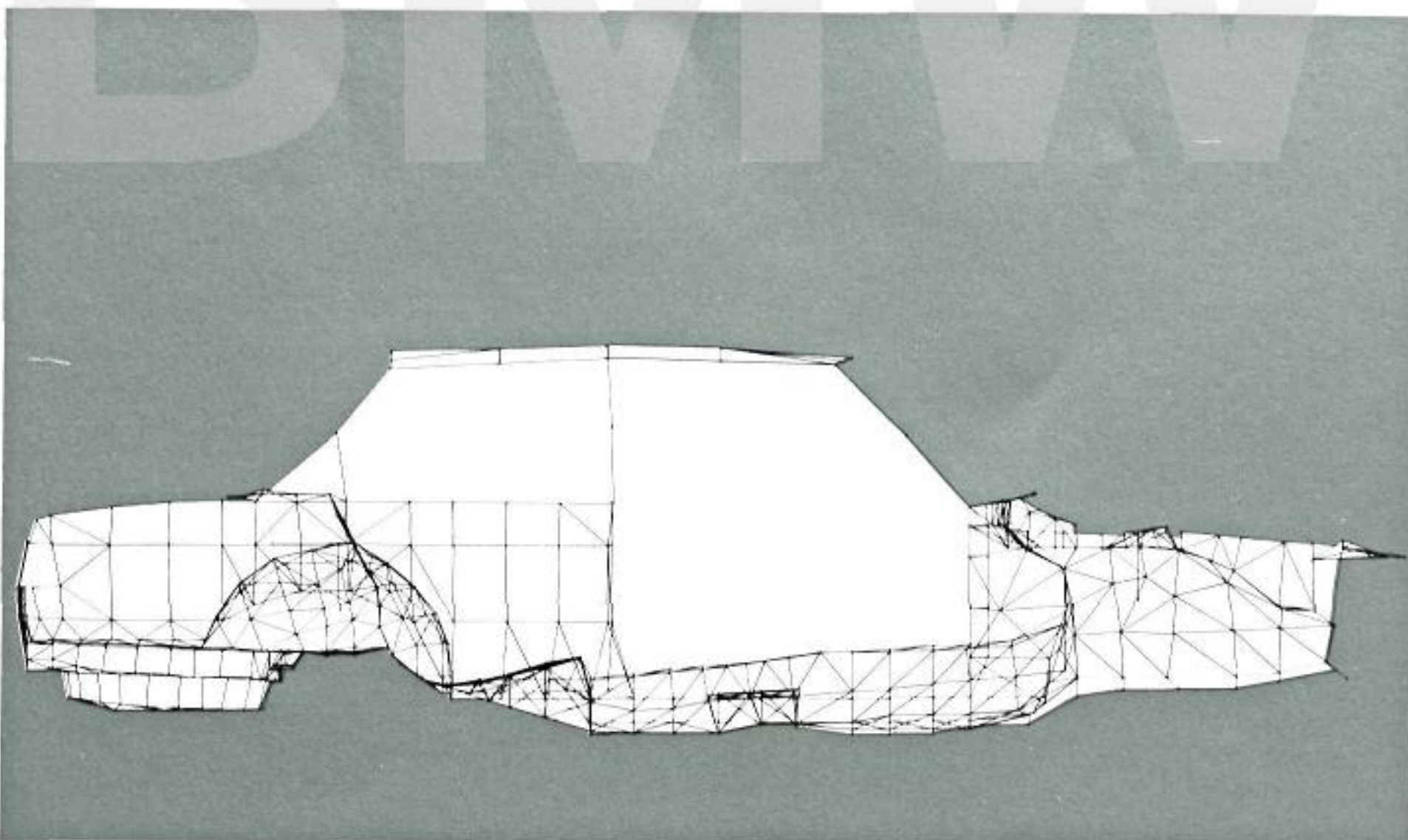
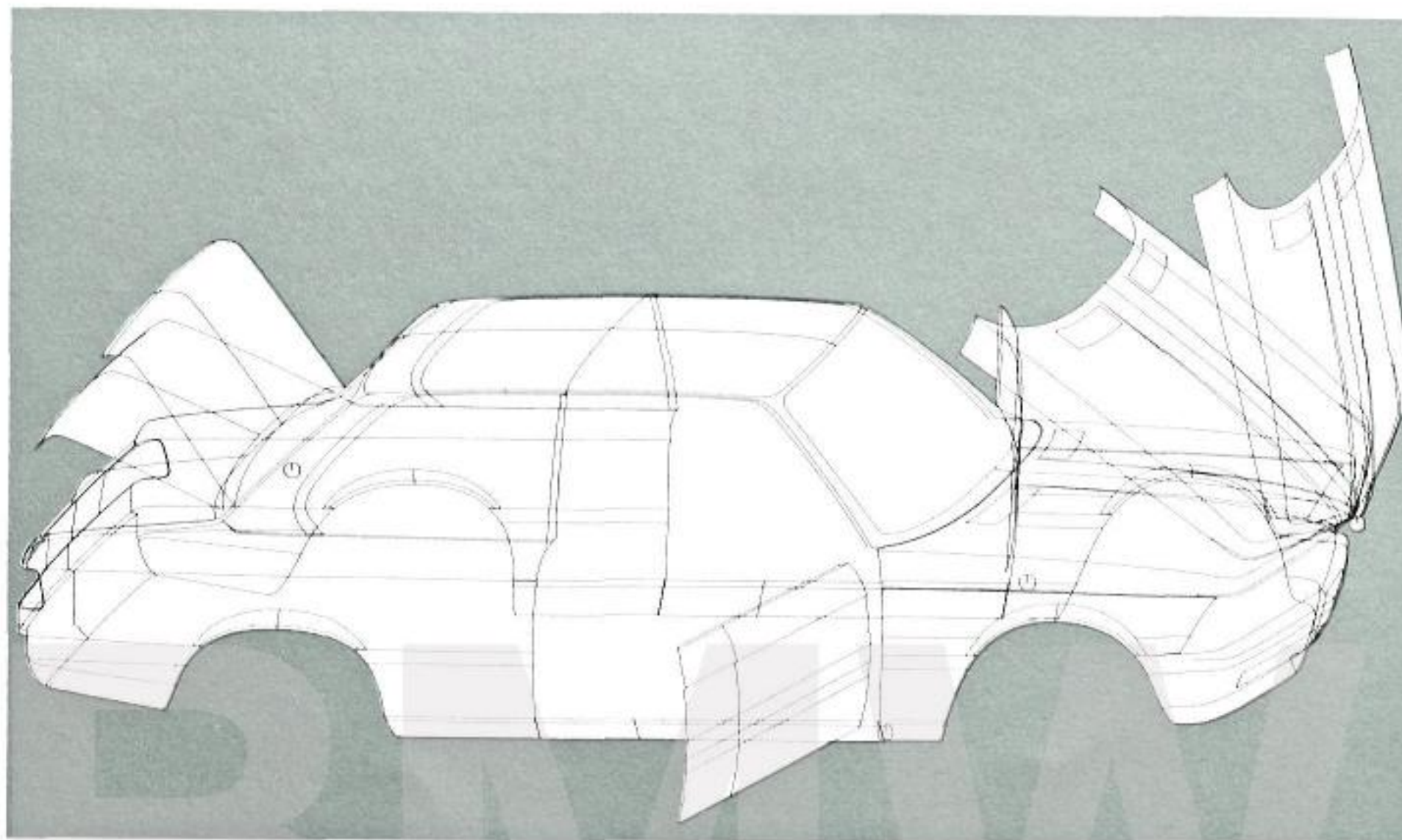
The progress made by BMW during the last few years in the field of electronics is being applied systematically in broad areas of automobile development. The check control system has been installed in the 6-series since 1976, and in the 7-series since 1977. With this system the most important safety functions can be checked by pressing a button. In 1978 the BMW on-board computer was used to demonstrate to journals and the public additional possibilities arising for the use of electronics in the automobile.

BMW is working on other novel engine designs. These projects are still in the research stage. They are being supported in part by the Federal Ministry of Research and Technology.

With the development of new braking systems BMW has undertaken a decisive step towards increased road safety. Together with the firm Bosch the BMW anti-blocking system (ABS) was developed. With ABS the manoeuvrability and driving stability of the car is retained even under the most difficult conditions — for instance emergency braking — as locking of the wheels is prevented by electronic logic circuits. Depending on the respective road surface conditions, considerably shorter braking distances can also be achieved with ABS.

Reductions in weight also contribute substantially towards decreasing the car's petrol consumption. This therefore, besides current work on models, was a task of prime importance also with regard to automobile body development. Body structures were optimized in respect of weight and rigidity by using the most modern computation methods. Parallel to this extensive tests were carried out both in the laboratory and on the road.

Consideration of aerodynamic criteria as regards body development contributes likewise to fuel saving, as a result of the reduced air resistance. Thus the aerodynamics of the BMW 635 CSi were optimized by the development of a spoiler system. This also enabled driving stability at high speeds to be improved.



Electronic data processing is an essential aid in the development of BMW automobiles. Computers are used for computations and graphs of automobile structures.

The rising demands made on automobile development can only be fulfilled by making increased use of large computers. Thus during the year under review capacities for computers and personnel were increased. Now for example with graphical data processing, the tedious and complicated path from constructional body design to numerical control of the machines for the tool production can be shortened and at the same time rendered easier and more precise.

In the motorbike sector the models R 45 and R 65 were introduced during 1978. With cubic capacities of 450 cc and 650 cc and a performance of 20 kW to 33 kW (27 hp to 45 hp), they round off the BMW motorbike program for smaller models.

This series is characterized externally by functional design, low sitting level and reduced overall engine width. These motorbikes are thus particularly easy to handle. They are further distinguished by exact wheel suspension and a high level of comfort. The 20 kW (27 hp) version of the R 45 was developed following a new reclassification of the insurance classes.

As with automobile construction, system technology is becoming increasingly important in motorbikes. With the new motorbikes this is true especially of the central electrical system, which is easy to see, within easy reach and easy to service under the newly-designed tank.

In the year under review BMW Motorsport GmbH first introduced the road traffic and racing versions Group 4 of the medium-engine coupé M 1 to the public. Besides the abovementioned high performance engine, all other components in this sports car are developed to meet the highest technical demands. The low center of gravity, twin control arm suspension of the front and back axles and the weight and crash-optimized tube-frame structure are constructional features which in this combination are only otherwise found in racing vehicles.

The BMW Marine range of products was extended by a small diesel series. These models are distinguished by small constructional volume and low weight, high level of performance and other qualities appealing to the consumer. At present the single-cylinder D 7 (4.5 kW) and D 12 (7.5 kW) are available; the series will be extended with two and three-cylinder engines.

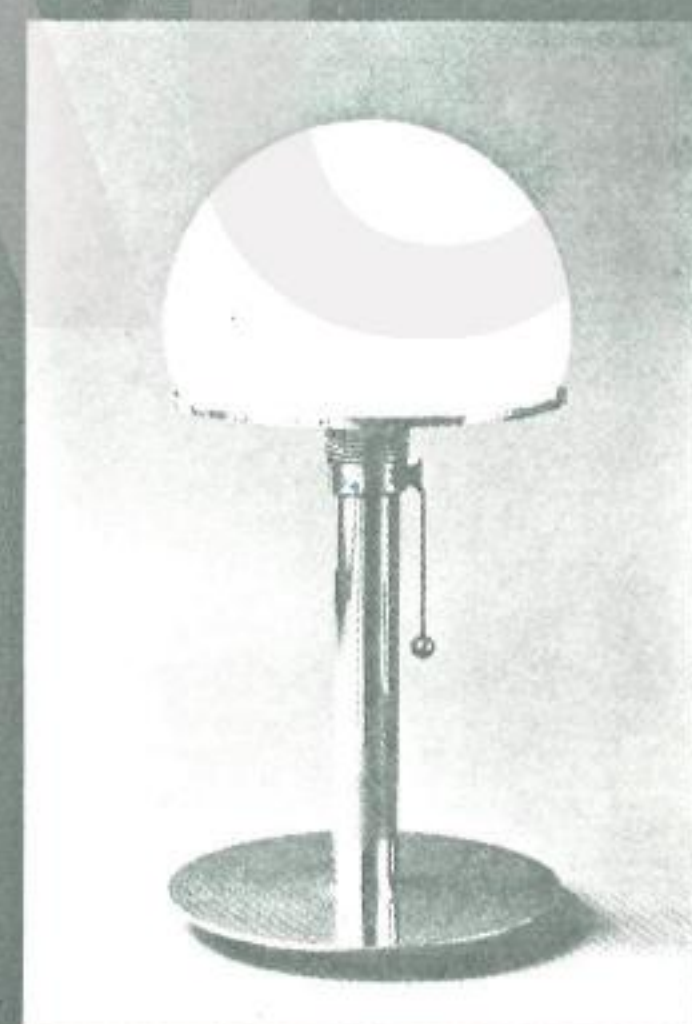
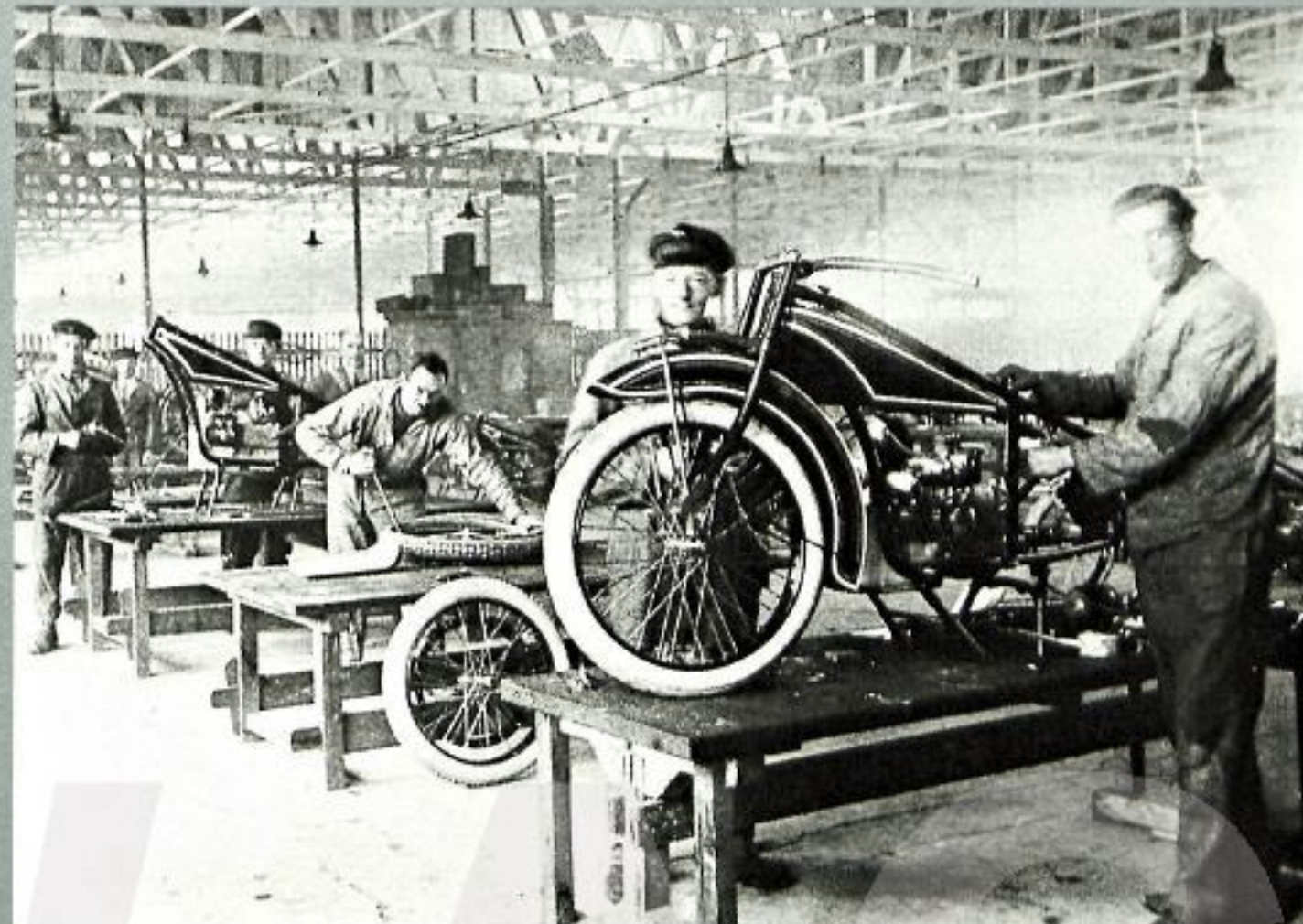
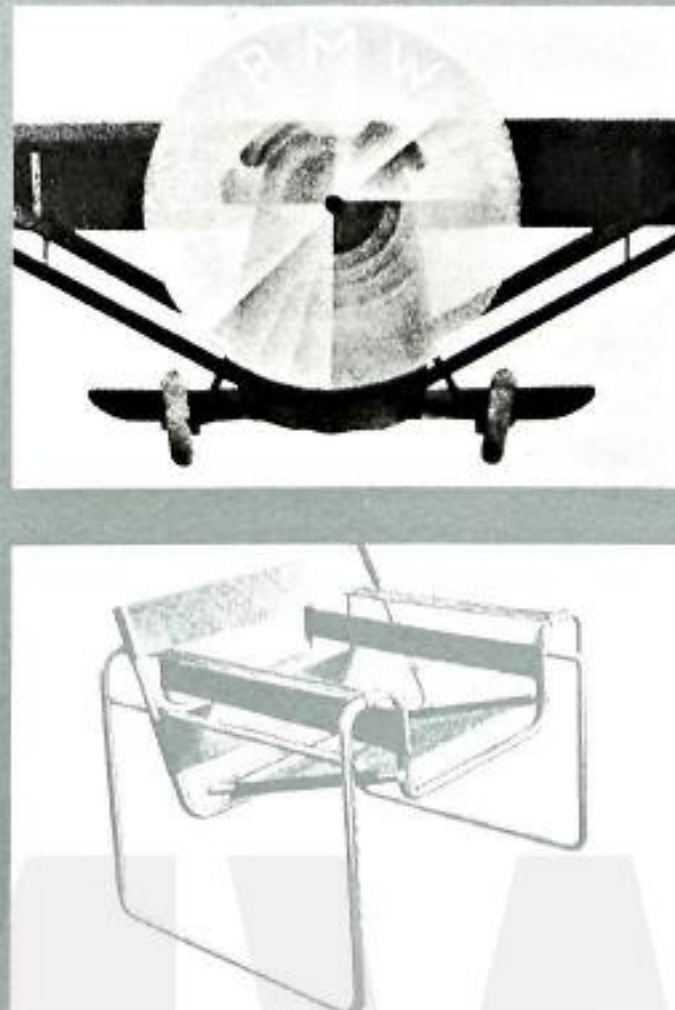
The story of the technical evolution over the past 50 years is a story about utensils, their use and their application, their function and their beauty. This documentary describes the evolution.

BMW began building plane engines in Munich in 1916. The rotating propeller on a white-blue background symbolizes this tradition.

In 1928 the introduction of the steel tube as material in furniture making was outrageous. But "the seriousness and honesty of metal furniture represent the development of a style conveying logic and common sense". Writes Marcel Breuer, the constructor.

In the twenties the motorbike production at BMW constantly increases. The R 32 designed by Max Friz in 1923 with a boxer engine and cardan shaft with double steel tube frames and a half-shaft axle becomes the prototype for future motorbike generations. The R 32 caused a sensation on the racing circuits: by 1928 it had won 573 first prizes.

The automobiles of the Bayerische Motoren Werke in a kaleidoscope of the decades from 1928 to 1978.



In 1928 Theo van Doesberg prophesies catastrophe in the big cities. He insists on lifting the houses from the ground. One of the first is the Kathreiner high rise built by Bruno Paul in Berlin in 1929.

Solo and "non-stop" the young American Charles Lindbergh is the first to cross the Atlantic. The flight lasts 33 hours and 29 minutes from New York to Paris.

The development of the automobile to a transport vehicle suited the Bayerische Motoren Werke in Munich perfectly. In 1928 they acquired the Eisenach vehicle factory and opened up the door to the expanding automobile market. The BMW Dixi 3/15 hp, built by BMW in Eisenach from 1929 to 32 quickly becomes a legend — the embodiment of an equally reliable and high performance automobile.

At the Berlin Automobile Show the Head of State, Reichspräsident von Hindenburg admires the BMW Dixi.

At the Bauhaus in Dessau the development moves away from individual artistic objects towards the mass produced industrial product. Besides a new architecture, mainly tubular steel furniture, glasses, tableware and lights are created at the Bauhaus. Also this table light by Wilhelm Wagenfeld.

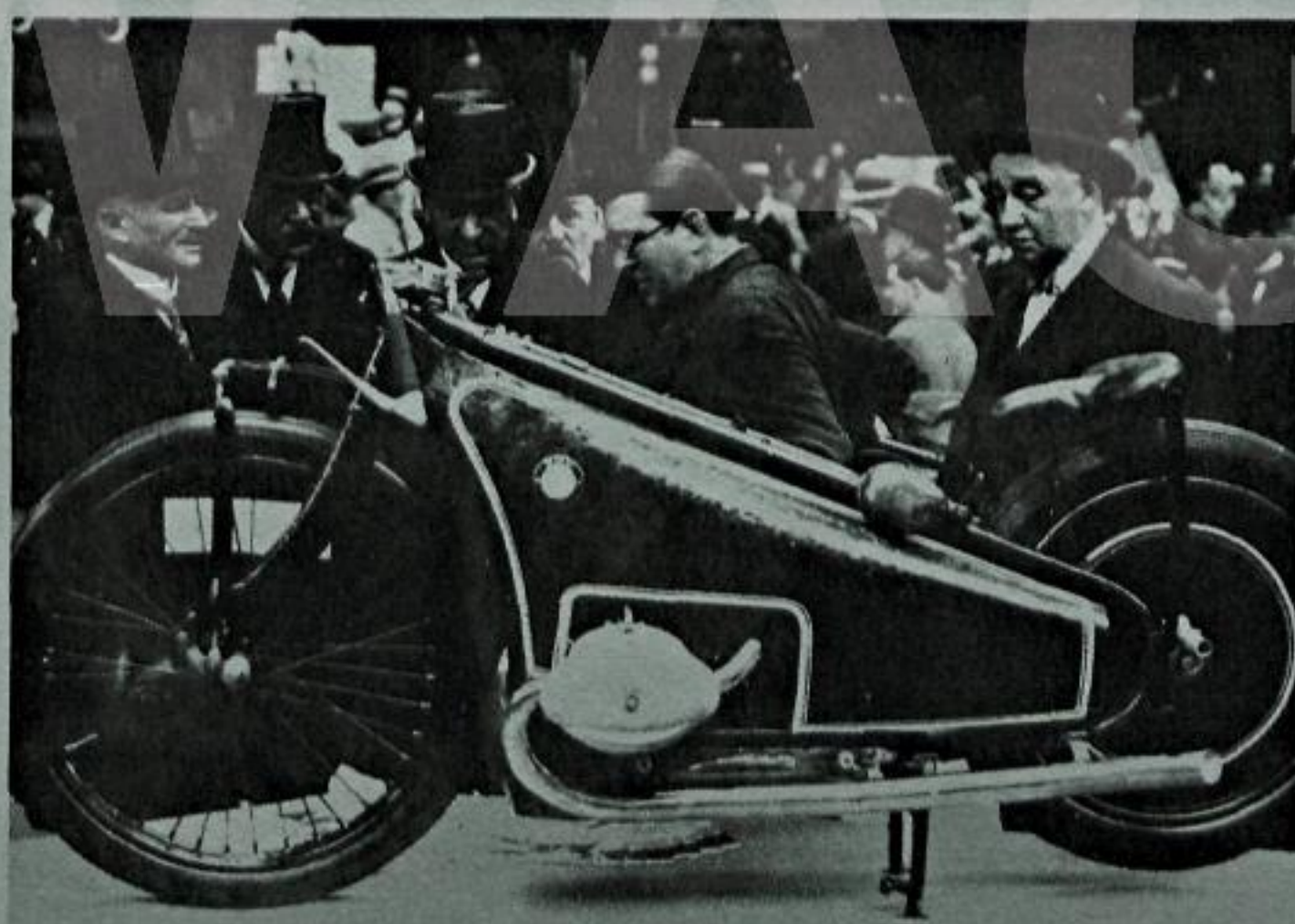
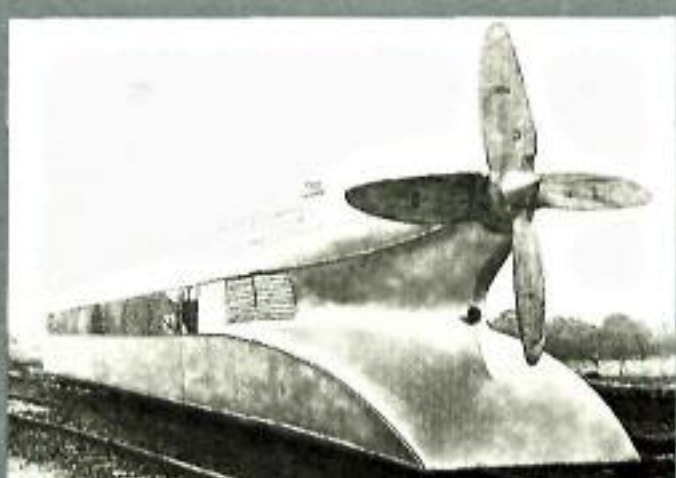
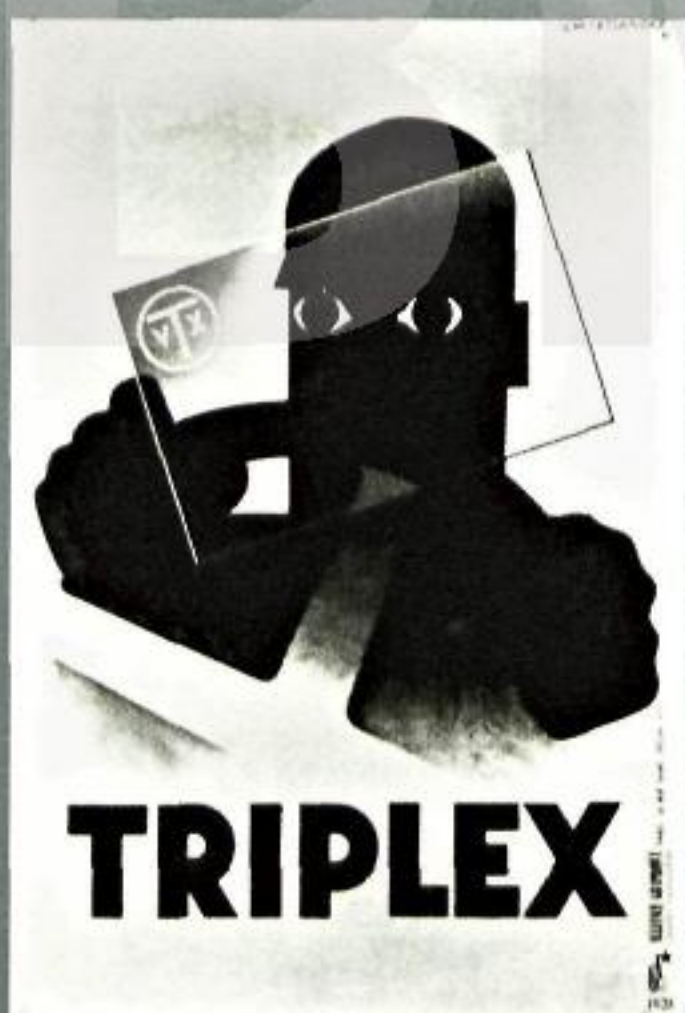
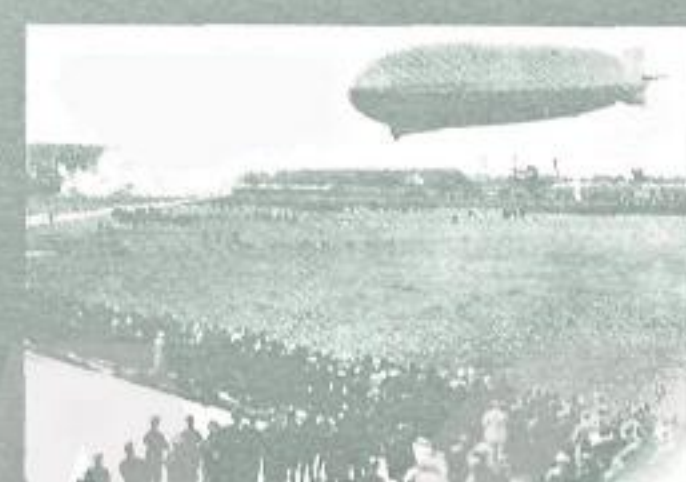
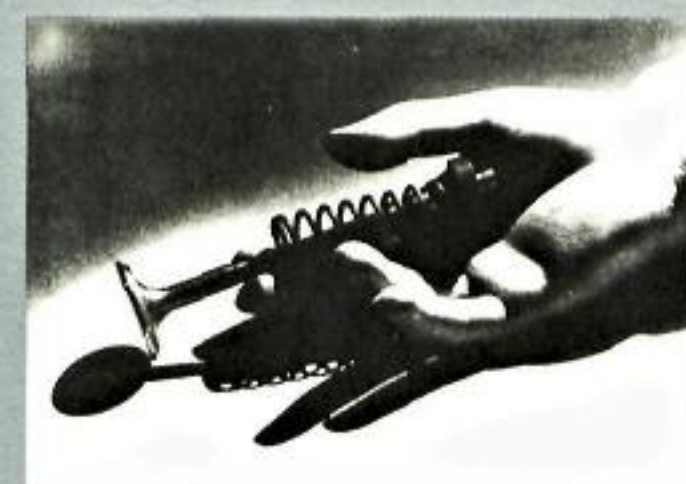
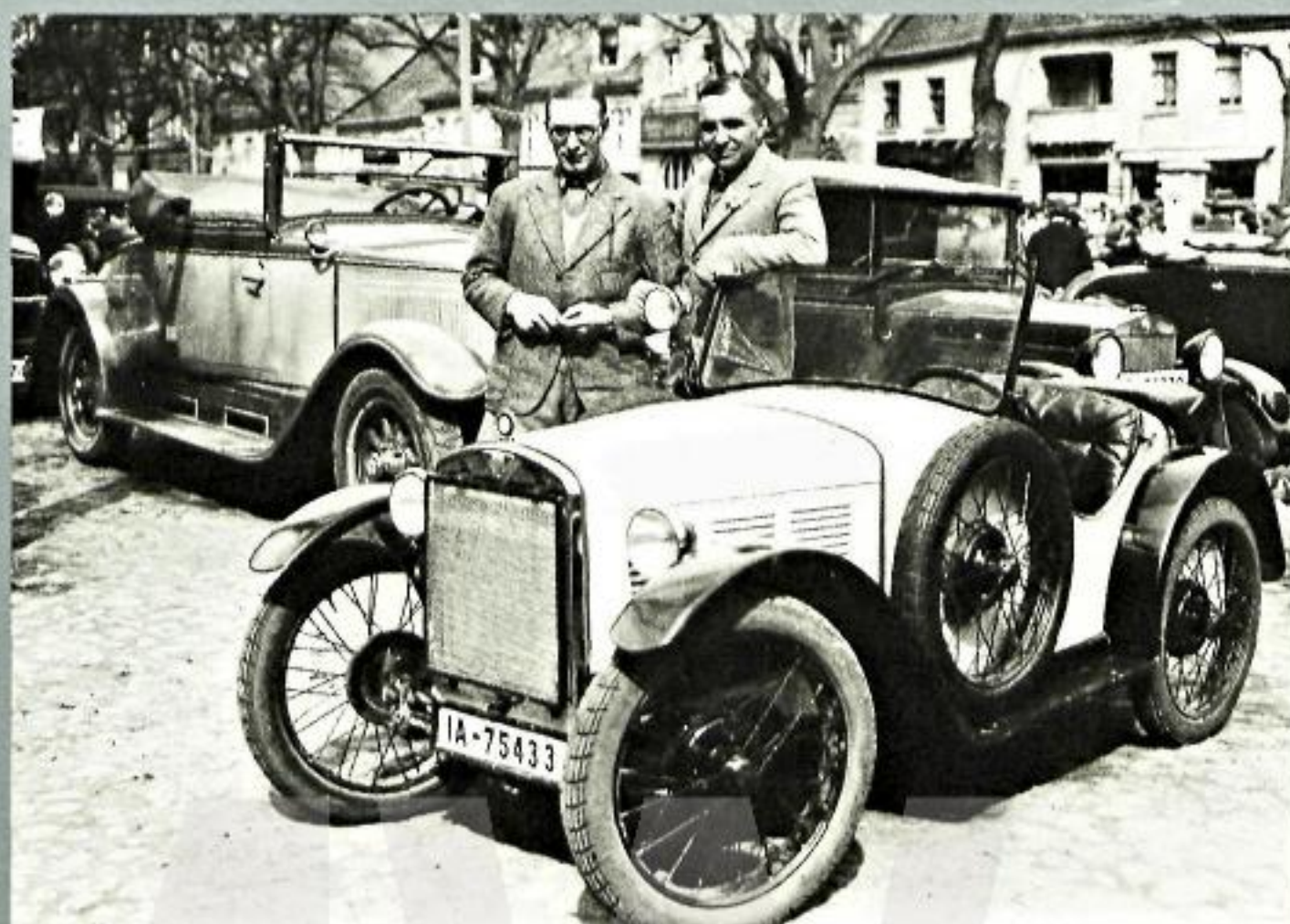
1928 is the year that shapes the century with so many and such far-reaching developments in technical fields, culture and science. Distance withers, time withers. The coming tone film captivates people right around the world. In Berlin the wireless television is presented. Stefan Zweig publishes "Sternstunden der Menschheit".

The BMW 3/15 is truly an all round vehicle. Sometimes obstinate, sometimes beautiful. It was produced as a roadster and touring car, as a limousine and coupé. It gathered sporty merits from the beginning: winning the International Alp Race in 1929. The three competing Dixis drove for five days over the Alps down to Como — slowly but surely leaving all the others behind.

This amazing victory causes a sensation. A small car triumphs over many bigger ones. The small cars are no longer made fun of as "road fleas". As a utility vehicle with many uses and with low gas consumption, they now become very popular.

Technical factors play an important role in these works of art. The symbiosis of the human hand and mechanical valves is arranged by the photographer and surrealist, Man Ray.

The airship "Graf Zeppelin" lands in Friedrichshafen. This is the first time a flying object circles the world.



The most succinct posters of the twenties advertise technical products. For instance Henry Ehler's poster for BMW.

The BMW Dixi is the car body maker's favorite object. Buhne in Berlin equips it for the first time with a slanted windscreen.

The poster by the Frenchman, A. M. Cassandre advertises a new type of safety glass.

From Hanomag comes a two seater, designed as the people's car. But the vernacular mocks it: "Army bread".

Franz Kruckenberg attempts to combine the advantages of air and rail vehicles. Driven by a 600 hp BMW plane engine, the "Schienenzepp" reaches a top speed of 230 km/h. It covers the distance Hamburg-Berlin in 97 minutes.

Delivery trucks dominate the Parisian salons. The world depression renders many luxury vehicles superfluous. BMW no doubt presents the most beautiful vehicle; the world record bike of 1929. Ernst Henne reached 216.75 km/h on this BMW on the Ingolstadt road near Munich.

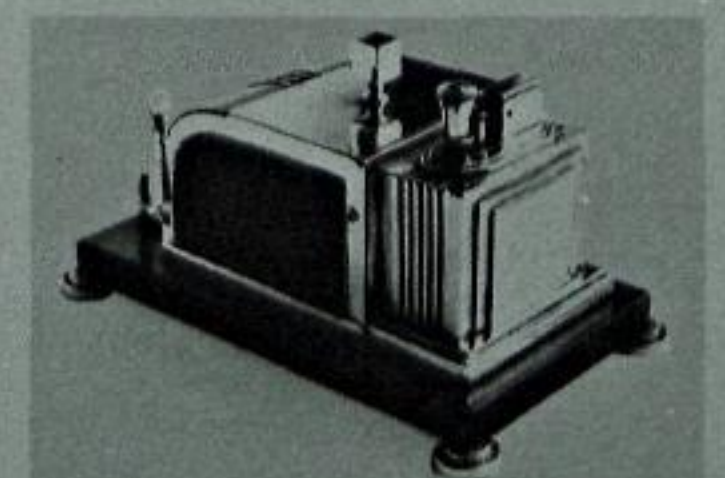
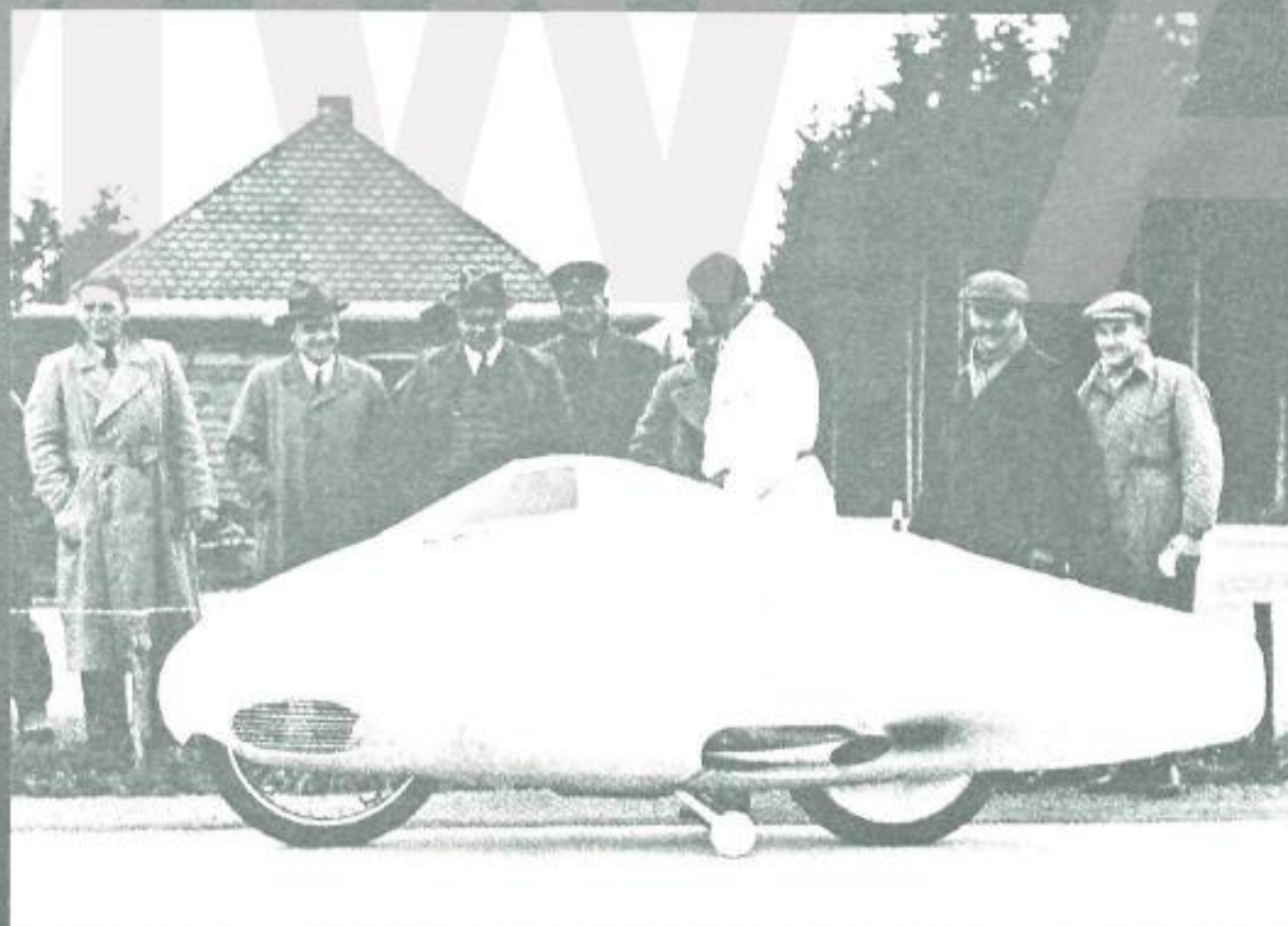
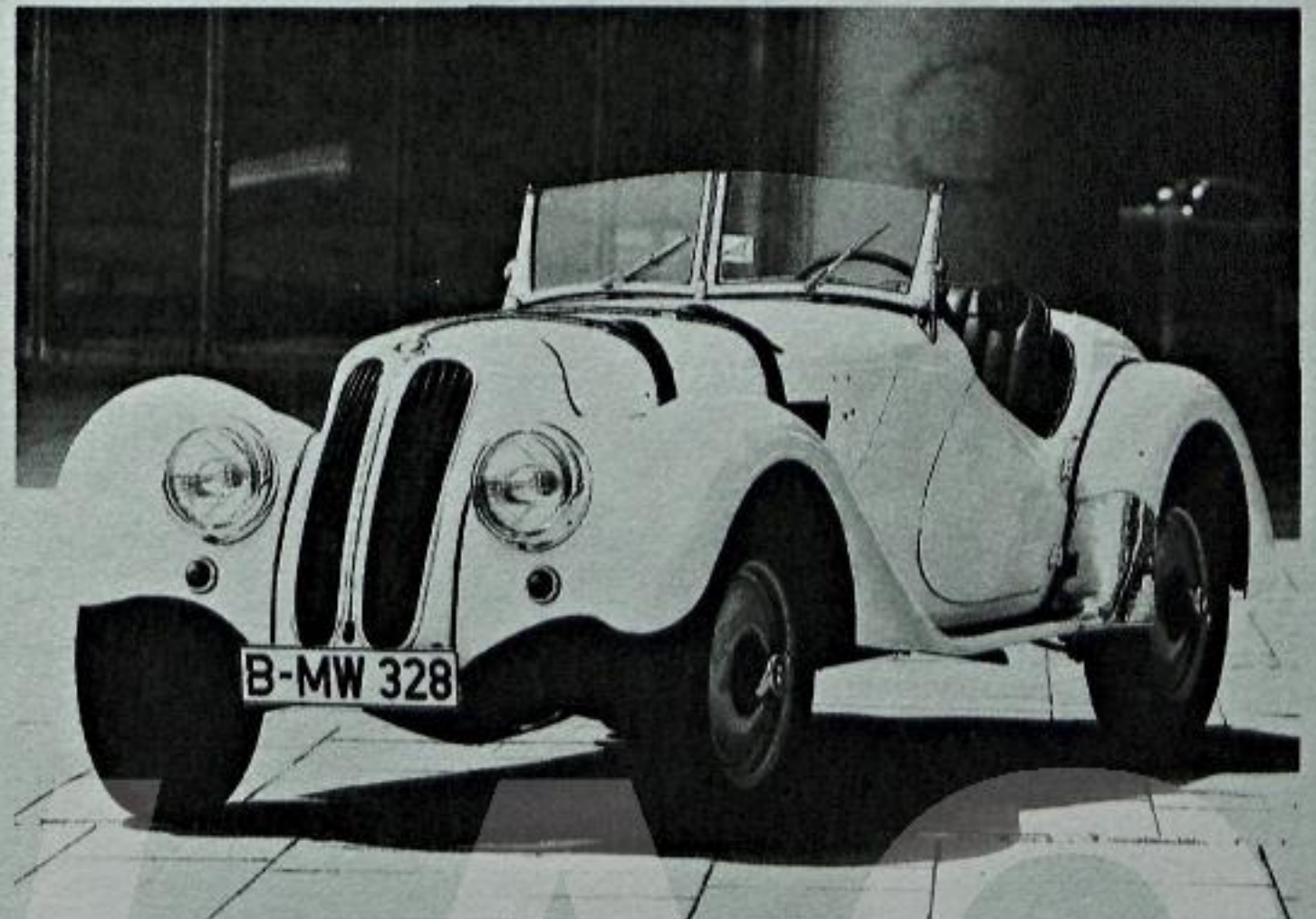
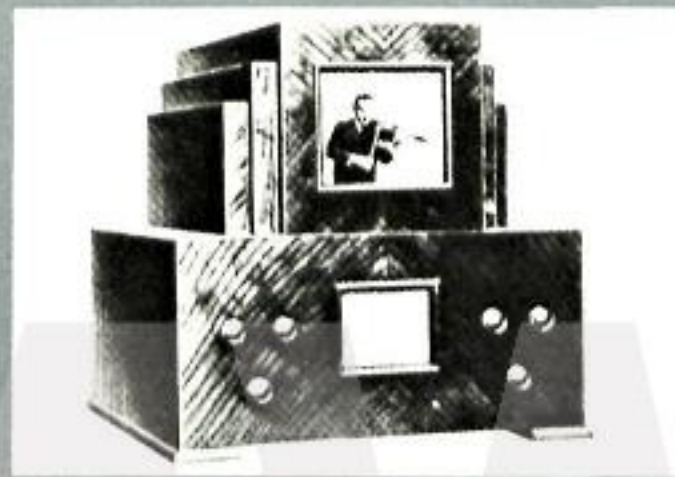
Fernand Leger "Doubtlessly the development of transport vehicles and their speed has something to do with the new way of looking at things".

The chemists Otto Hahn and his colleague Fritz Straßmann are the first to split an atom. Lise Meitner, Hahn's colleague for many years, continues the experiments to the chain reaction. Lise Meitner, like Albert Einstein and many scientists and artists, saves her life by immigrating.

The poster for the air raid protection corps gives an idea of the horrors of the coming war.

A "Standard German Television Receiver" is presented even before war breaks out. It is not produced. Only in 1952 does television come into Germany's homes.

In 1938 the first atom is split. An experiment, carried out in Germany which changes the world. Within the country, the munition industry has priority: also in the field of sports there are future oriented developments. The 328 sports car boosts BMW on the domestic and foreign racing circuits to world fame.



The ugly duckling: the prototype comes out in 1938. It is inspired by the functionalism of the Bauhaus.

The telephone is already an indispensable means of communication. Bridging oceans and mountain ranges. Many things no longer remain unsaid. And quickly objects begin to outstrip desires.

In the battle for the motorbike world record, England, Italy and Germany put up bitter fights. National prestige thinking speeds up the development in motorbike production enormously. The BMW world record model is developed in a wind canal from Ernst Henne's plans. Its complete encasing unites all aerodynamic finesses of the time. Ernst Henne's new world record, now 279.5 km/h remains unbroken for 14 years.

The Volkswagen is the symbol and promise of a new era. After Porsche developed the model up to the production stage, a factory is built in Wolfsburg for its production. The "family outing in the Volkswagen: a dream becomes reality" had to be postponed for years by the Germans.

The table lighter produced by the American company Ronson embodies the style of the period: elegant but not easy to handle.

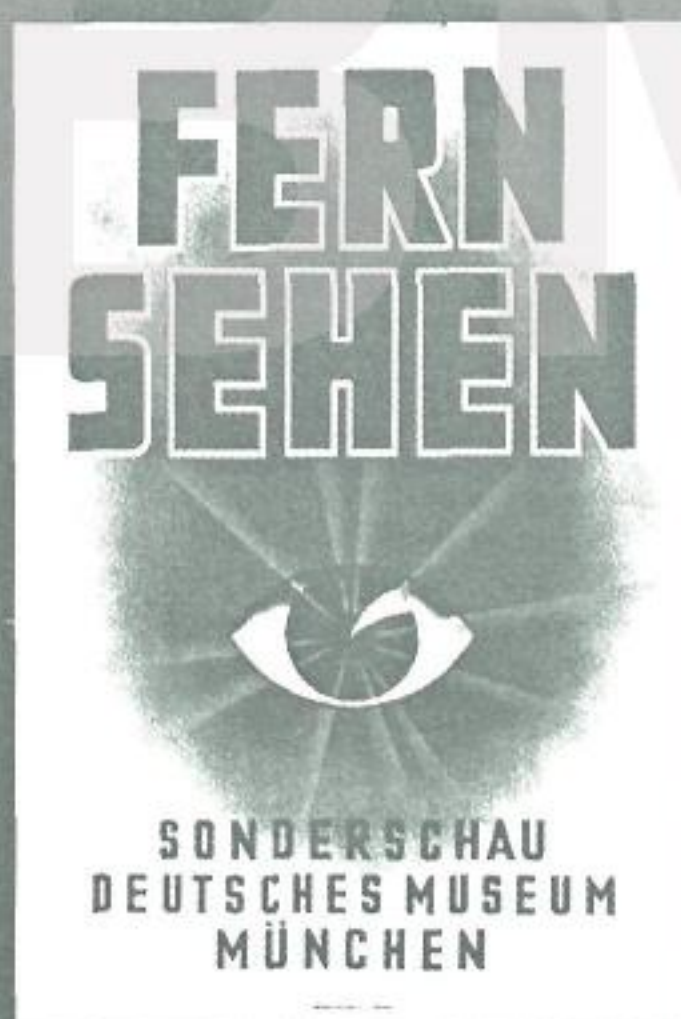
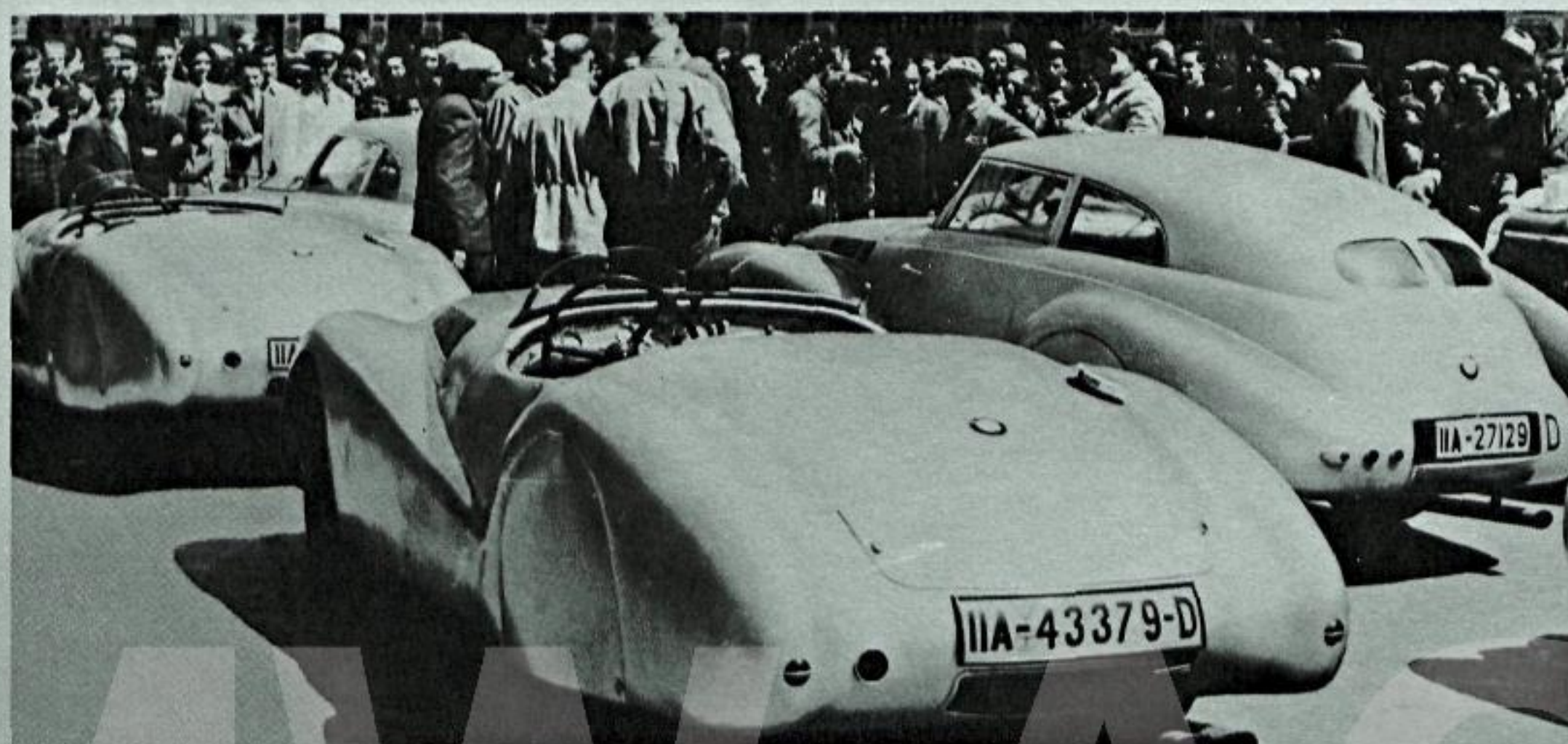
In 1938 the Ju 52 is considered the world's safest plane. The BMW nine-cylinder star engine, which lifted the old "Aunty Ju" into the air and held her there, goes down in history.

Art at this time has to be monumental. The sculptor Thorak is working on a memorial for the highway construction workers. His most important tool: a fire department ladder.

At the market place in Brescia five BMW 328s with special bodies are waiting for acceptance before the race: three roadsters and two coupés. Their duralumin cover is fastened to a wire frame. So none of the vehicles weigh more than 650 kilos. They are as fast as they are light. The 135 hp produce a speed of more than 200 km/h. The BMW cars win this thousand mile race, too.

As Mille-Miglia cars they are not forgotten. The consequent ponton shape of the coupé can be traced back to the designs of the engineer and aerodynamic, Paul Jaray, the pioneer of the European streamline shape.

The streamline becomes "the very synonym of modernity. The streamline is developed in a wind canal. And at the speed of wind it advances to the typical style of the time. Even such quiet objects as radios, irons, cash registers and lighters look like they want to get up and rush off any second", writes Paul Maenz.



An exhibition is held in Munich. Like in ancient cultures, the magical eye is a symbol of long-sight and fascination.



Just before the outbreak of the war Schorsch Meier wins the most difficult motorbike race in the world with a BMW 500 cc compressor engine: the English Tourist Trophy on the Isle of Man. This victory is of great importance for the whole German motorbike industry. Up to now, only Englishmen had won the TT. With their unbeatable style and equally unbeatable sales strategy.



Franz Kruckenberg adapts his rail Zeppelin for a 215 km/h power railroad train.

Like the Dixi previously, now the BMW 328 inspires the body producing companies to develop new designs. The car body factory Wendler in Reutlingen builds a streamline vehicle based on the 328 from Paul Jaray's plans.

Like a sculptor Le Corbusier designs rooms of symbolic plasticity. His pilgrims' church in Ronchamp revives the architecture of organic shapes.

With newly awakened optimism the magazine Modern Publicity maintains: "Business success in the future will depend on creative advertising." Savignac draws the shoe polish advertisement.

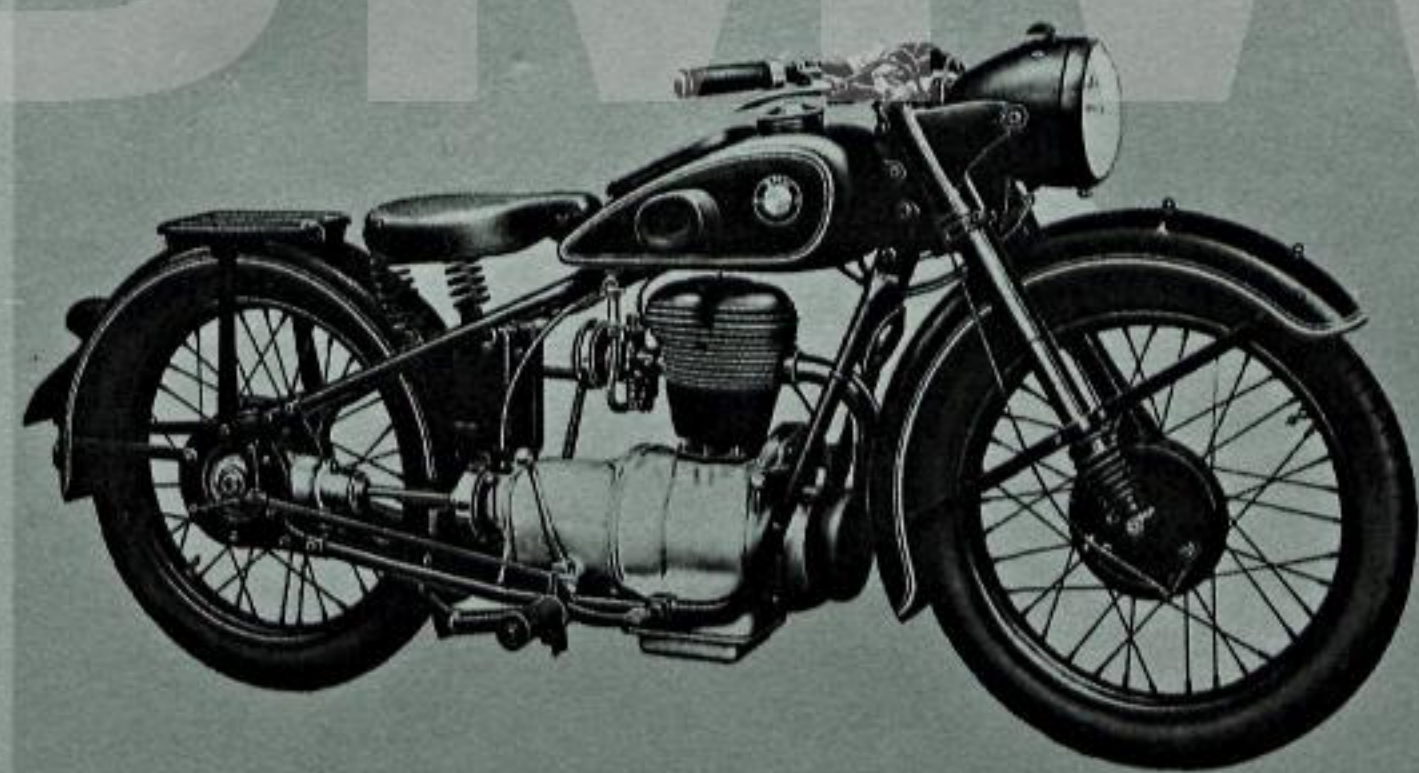


1948 BMW in Munich is short of everything. The automobile production equipment is in the Russian-occupied Eisenach; the construction plans for the BMW 328 are confiscated by Great Britain as reparation. Even more astonishing is the reaction to the first passenger car which BMW presents after the war, the BMW 501. The two liter engine and undercarriage were adopted and further developed from the prewar model 326. The plastic line of the body arouses great inter-



est. When BMW presents this car at the International Car Show in Frankfurt in 1951, it is well accepted. But the first cars were not delivered until the end of 1952. Two years later the BMW 502 came on the market: the first BMW with an eight-cylinder light metal engine, the first ever eight cylinder in post war Germany.

1948 whatever is useful is beautiful. Saucepans are produced from war scrap. The Deutsche Mark becomes the monetary unit in the Western Zones. The Marshall Plan provides for the restoration of destroyed Germany. Timidly BMW starts up motorbike production again.



BMW presents the R 24 motorbike at the Geneva Salon in 1948. The one cylinder engine has a newly designed 250 cc engine, battery ignition and a four speed transmission. By the end of 1949 approximately 10,000 bikes have been sold.



The end of the war unites many people in Germany with good intentions to learn from the past. Now it is essential to build the foundations for democracy in Germany. Much educational work has to be done. The adult education classes foster intense involvement in this. The poster created by Otl Aicher advertises a program for the Ulm adult education classes.



Charles Eames builds a body-fitting armchair with a moulded seat of polyester.

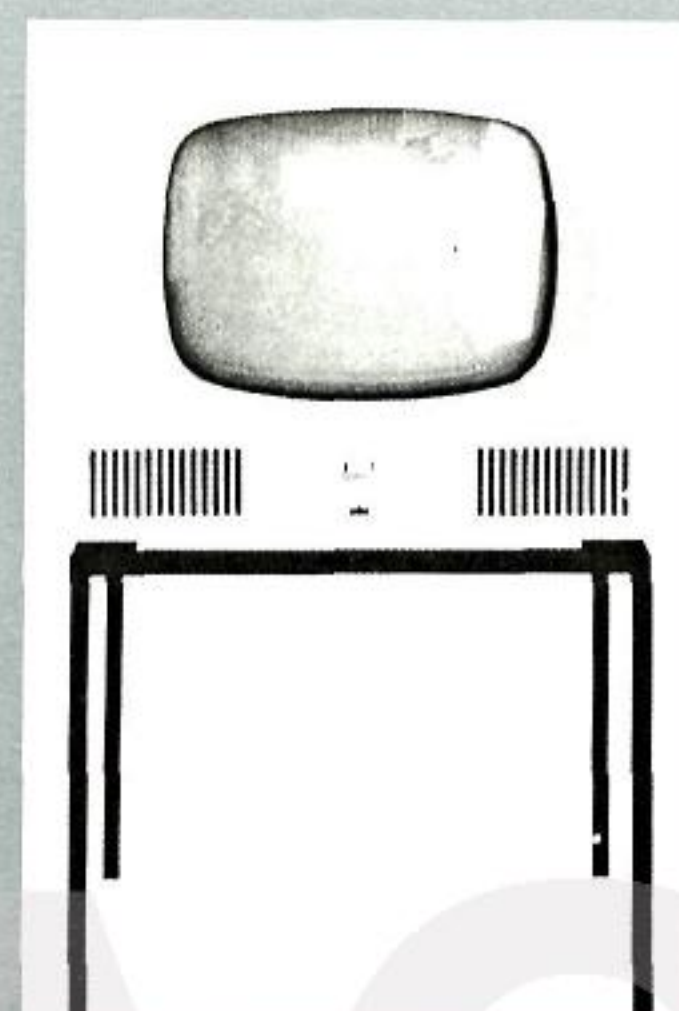
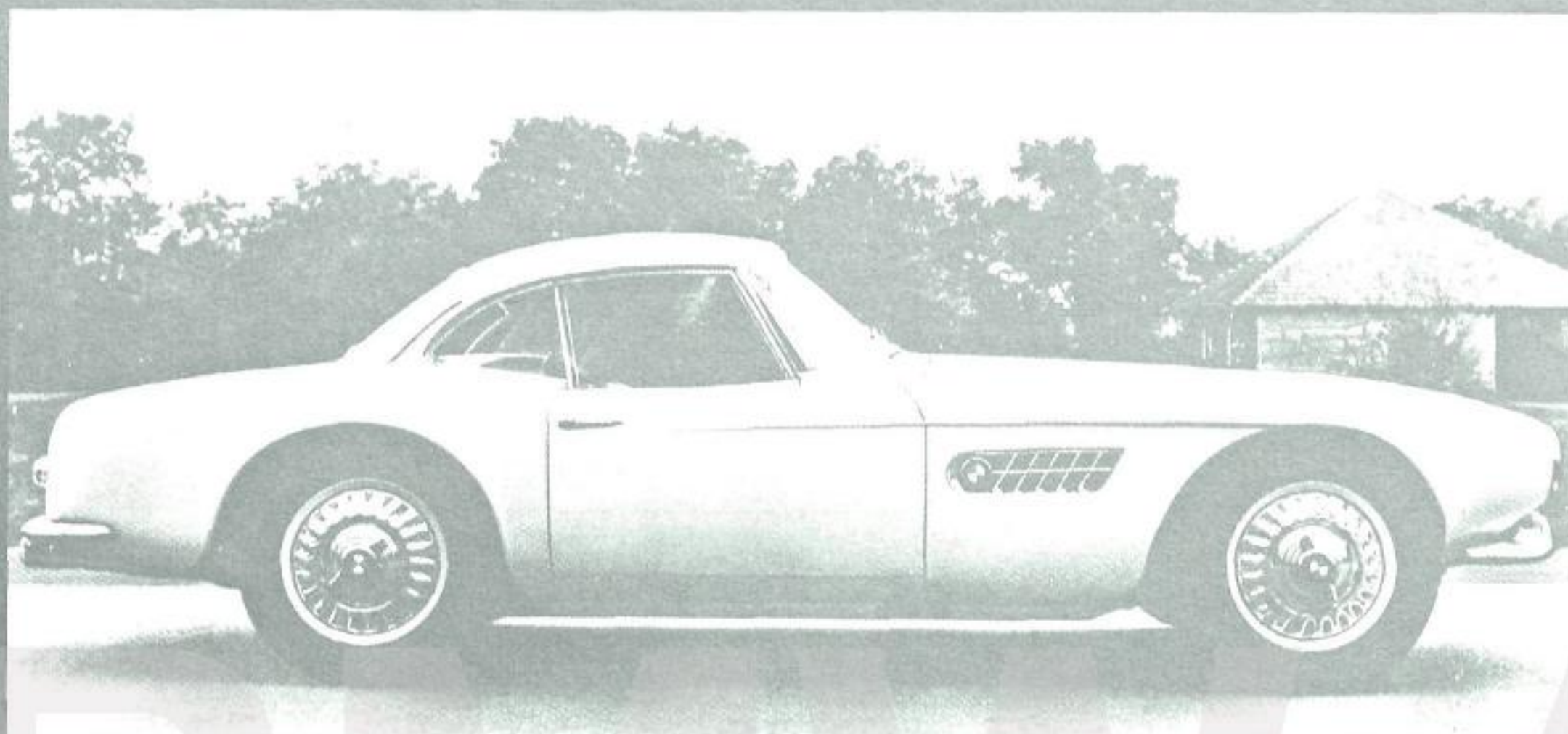
An American battleship of 1948: the embodiment of the technical and economic omnipotence of the United States.

Interest in sporty cars does not diminish. The prototype of the Porsche 356 is hand made by father and son Porsche.

1958 the film "Wir Wunderkinder" is a box-office hit. Automobiles are mainly status symbols rather than a means of transport. In air traffic, the jet age breaks through. And the first satellite circles over everyone's head: the Sputnik. In Munich the physicist Rudolf Mößbauer discovers a process to research the energy structure of the nucleus. From Munich comes the BMW 507 — the first automobile with standard disc brakes.

Not only does BMW build the popular small car, the Isetta, but also a large range of exclusive automobiles for a selected few. Including the 507. This dream car sold in small numbers: 252 units in all. The BMW 507 was designed by Albrecht Graf Goertz, with the undercarriage and eight cylinder engine of the BMW 502. Of course the 507 is fast: up to 220 km/h. And from 1958 on equipped with an important technical novelty: front disc brakes.

Scrolls and ornamentation are passé. The television designed for Braun by Herbert Hirche exemplarily shows the trend towards reduced shapes: cool and clear and smooth.



The "Atomium" in Brussels is the trademark of the World Fair in 1958. It is 110 m high and weighs 1,200 tons. Each of the 9 balls is 18 m in diameter. The "Atomium" is a 20 million times enlarged "molécule de fer alpha".

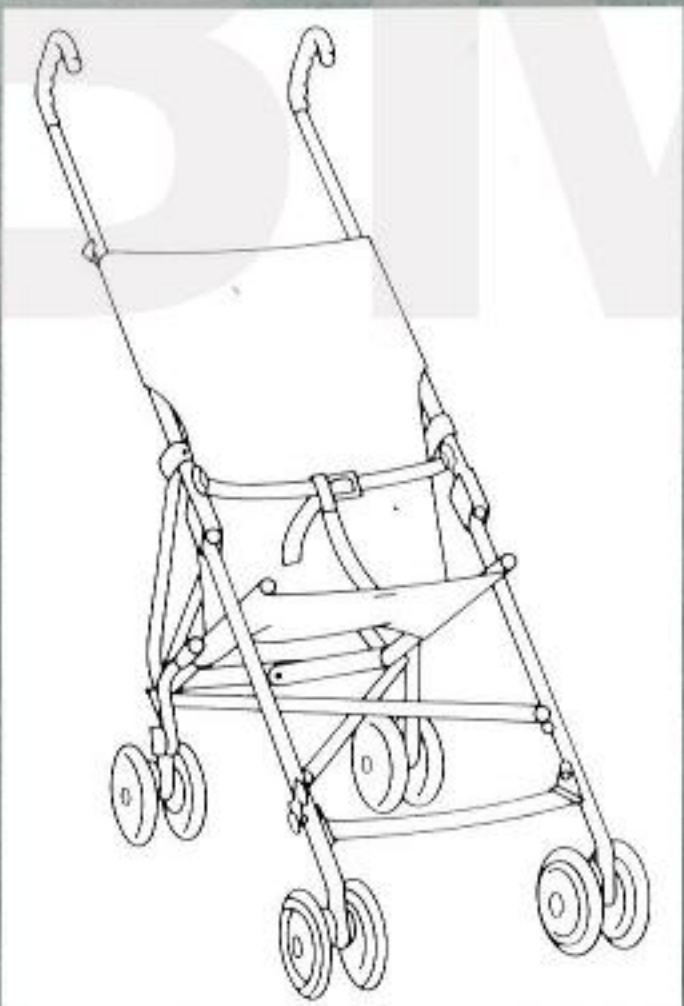
From America come several "furniture sculptures". The "coconut chair" was created by Georg Nelson for Miller.

The magazine magnum writes- "Architects meditate over the 'function' of the spoon, chair, lights, metaphysical ideas and whoever best determines what a spoon is and can tell the surprised humanity what a spoon has to look like in the future, is the genius of the epoch". The table light typical of the time comes from John Reid.

The BMW 600 is just under 3 meters. It is powered by a two cylinder boxer engine which is in principle the classical motorbike engine. The front door of the BMW Isetta is adopted. A rear side door enables entrance from the back side. All in all the BMW 600 is a further development of the Isetta, built since 1955. The BMW Isetta, together with the Goggomobile from Dingolfing is the most popular small car in the fifties.

1968 Mies van der Rohe builds the National Gallery in Berlin. A rectangle of steel with glass walls. The sculpture at the entrance is by Calder. Later Calder paints a BMW racing coupé: the fastest and most notable work of art.

Klaus Enders and his side car rider Ralf Engelhardt win the World Championship in the side car class — for BMW the 16th consecutive World Championship.



This practical baby carriage comes from Britain. It is as light as it is robust, cheaply produced from aluminium tubes and covered in linen.

The BMW 2500 is the big BMW at the end of the sixties. With it BMW reconquers its position in the big limousine market. The 2500 is driven by a six-cylinder engine. This is the first engine with a three bullet swirl type combustion chamber, providing improved fuel mixture combustion. The 2500 is equipped with disc brakes on all four wheels. The low lying front grille subordinates the shape totally to the function.



End of the sixties brings a basic change in the motives for the purchase of a motorbike. The motorbike is no longer mainly used as a vehicle for getting to work — the fascination for riding itself is adequate reason.

With the undercarriage and the 120 hp engine of the BMW 2000 TI, the Gugelot Design group in Ulm develops a plastic car. The Bayer AG built vehicle remains an experimental model, a contribution to the discussion about new construction materials in automobile production. The K67 is not put into series production. It is now in the Deutsches Museum in Munich.



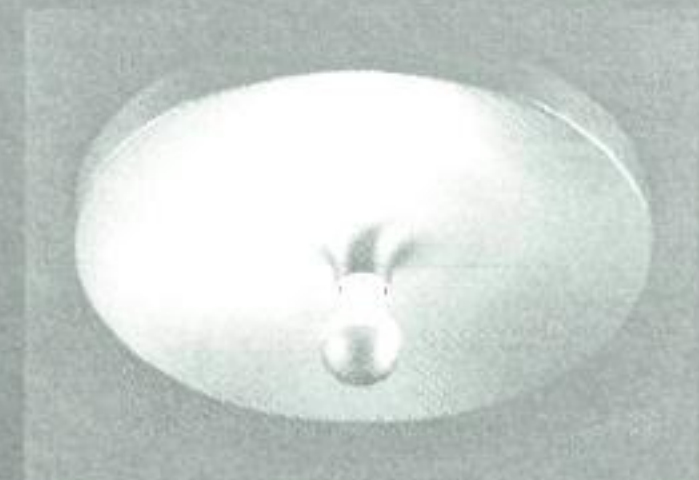
1968 the world thinks young. Woodstock, astronautics, the first man on the moon. Science, technology and art are fighting for popularization. The spirit of the time moves in an interdisciplinary, public and spontaneous way. In automobile production new materials are experimented with. Instead of the pioneering discovery, conscious innovation takes over.



The popular art, Pop Art, dominates the art world with uncomplicated reproduction processes the aura of the original is shattered. The index finger hand is by Roy Lichtenstein. He also paints a BMW 320 racing car: the third work of art on wheels for BMW.

1968 an unusual side and ceiling light was designed by "Licht im Raum". Its metal reflectors are supposed to use the warmth energy of the light in big rooms as an energy source.

The stackable tableware from Thomas Porzellanfabriken was designed by Nick Roericht. The tableware is based on size coordination. All 50 pieces can either be stacked into or on top of each other.



Chairs are beginning to be as casual as clothing, like this bean bag in leather by Piero Gatti. Filled with countless plastic beads, the bean bag can be shaped into all different positions. It is extremely light and so mobile.

1968 BMW presents the 2800: a big six cylinder, with a remarkable 170 hp. Notable is also: the BMW 2800 remains on the market virtually unchanged for 10 years.

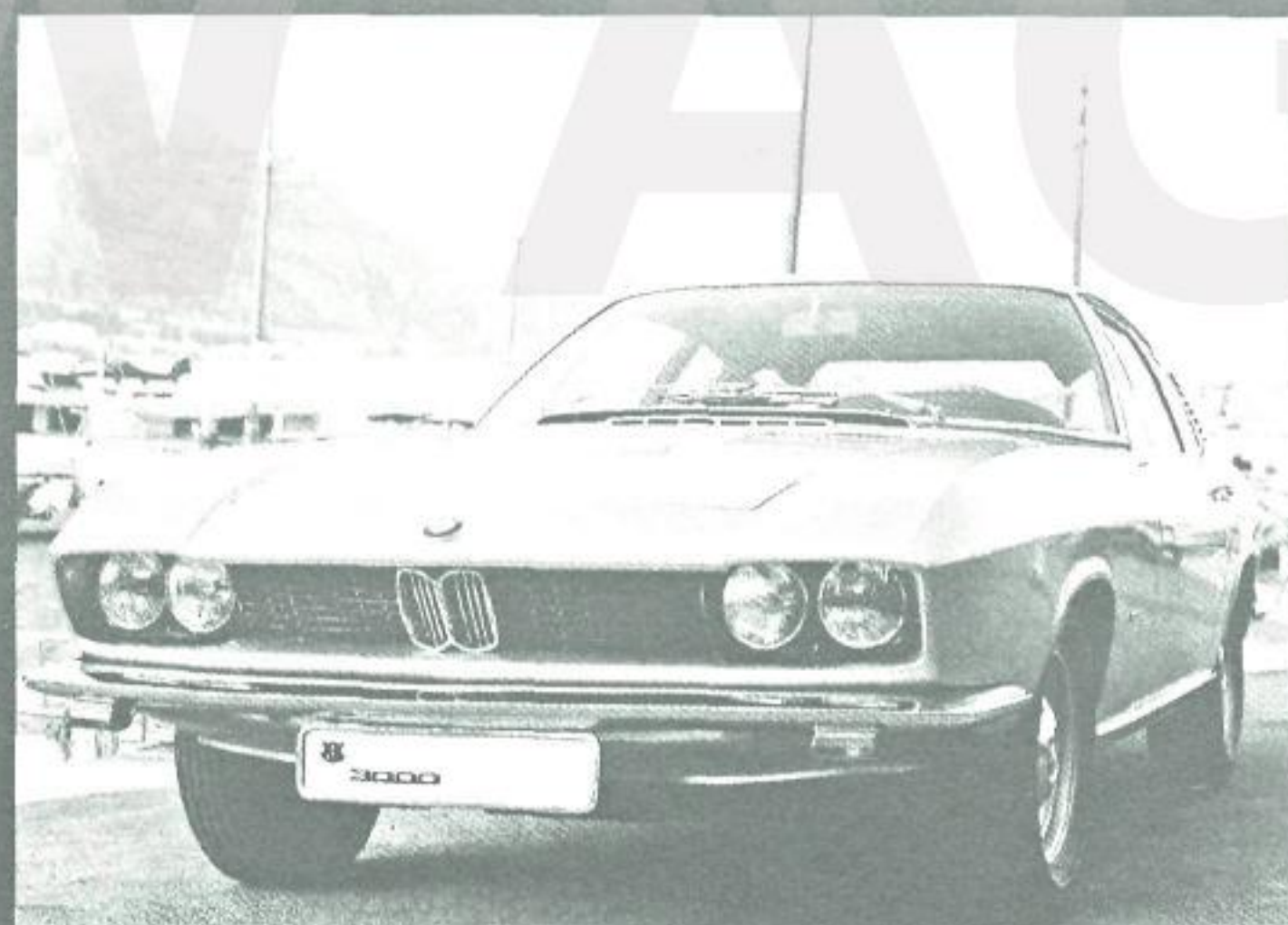


On lake Iseo in Northern Italy, three new world records are won by Dieter Quester. He is powered by a maritized BMW two liter engine with about 200 hp.

In Dingolfing the prototype of an amphibious cross-country car is designed for the Bundeswehr. It is built with the 100 hp four cylinder engine from the BMW 2000.

"Shapes are always and in all cases dependent on the quality and use of the object. They are honest forms, but never sales propaganda for products of fleeting fashionable designs."

A design maxim of this time was formulated by the architect, sculptor and designer, Max Bill.



The American Armstrong is the first to walk on the moon. His footprints are evidence of an age-old dream fulfilled for humanity.

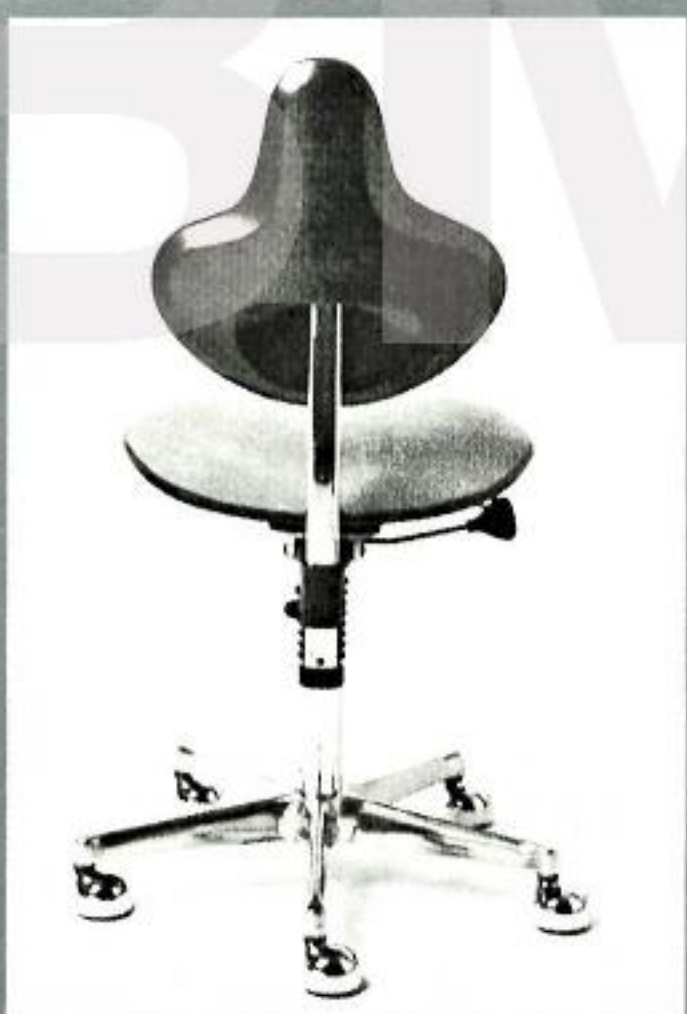
The BMW Bergspider 2000 took part in the mountain race at the Gaisberg (near Salzburg) with Dieter Quester at the wheel. The European Mountain Championship 1968 finished with BMW as the winning car make.



Frua Torino is one of the well known Italian car body designers. After BMW took over the Glas factory in 1966, there was temporary co-operation between BMW and Frua. So Frua created a coupé based on the Glas 2.6 liter (the later BMW 3 liter), presented in Geneva in 1968. Only the double kidney is so representative of the typical BMW look.

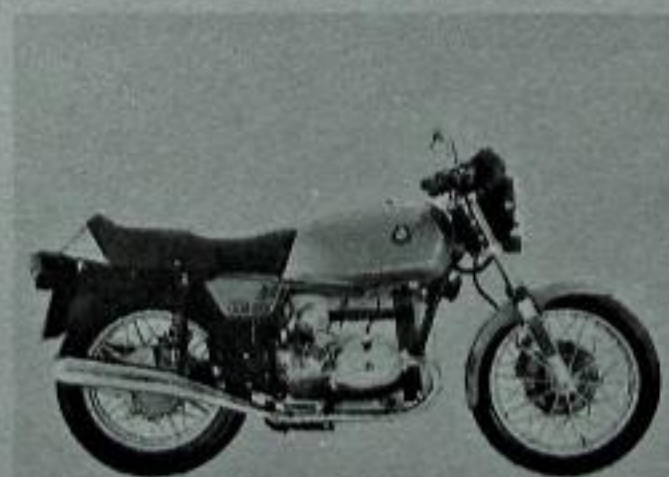
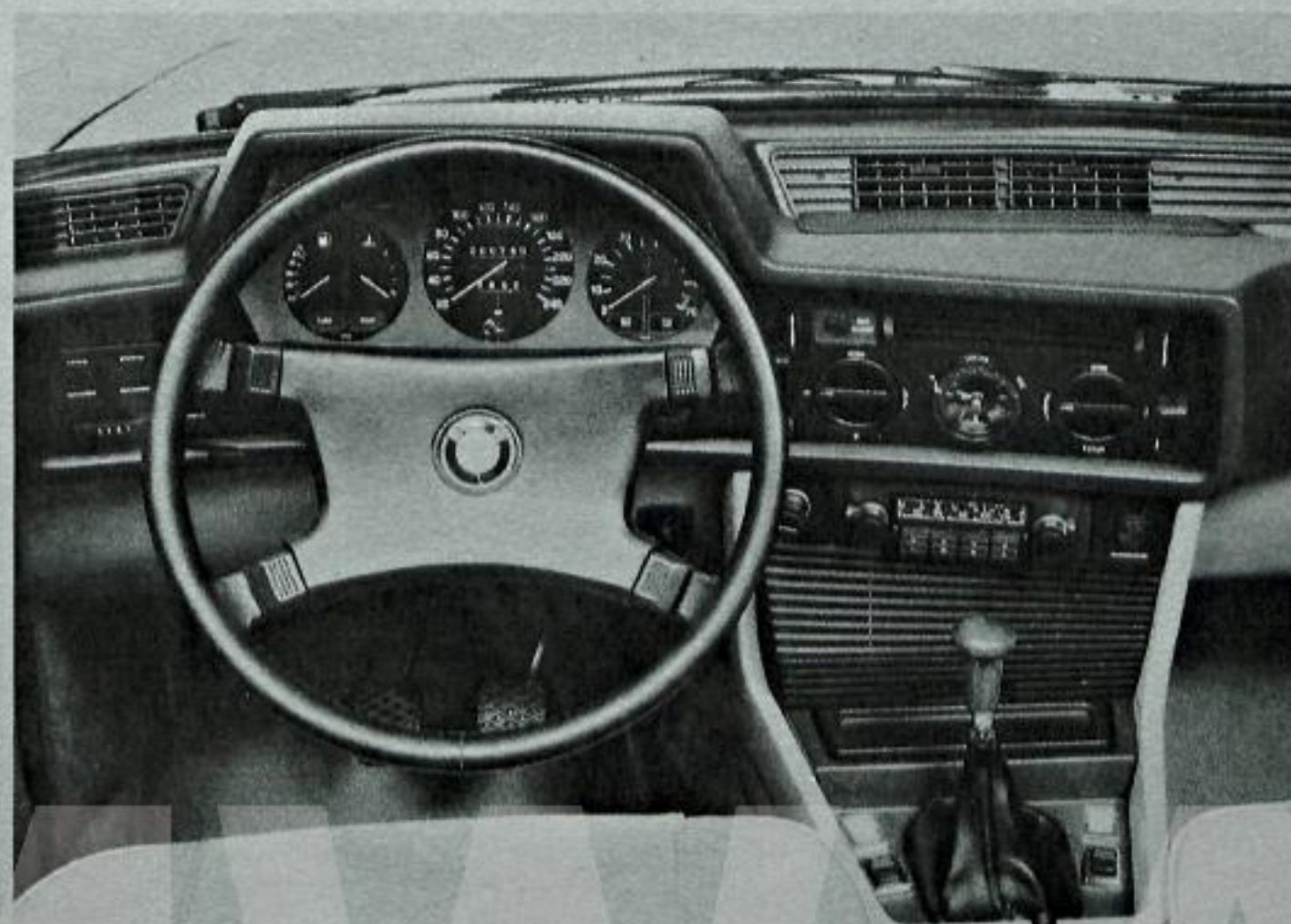
The "Centre Pompidou" in Paris demonstrates the new awareness in architecture. No longer is the inner structure covered by facades. Transparency is more important than representation. The architects are Rogers and Piano.

Analogue or digital?
More and more the clock is reduced from hands and face to only numbers.



Office chairs are designed with ergonomic and shape factors in mind so that sitting is not only pleasant, but also less tiring and at the same time accident proof.

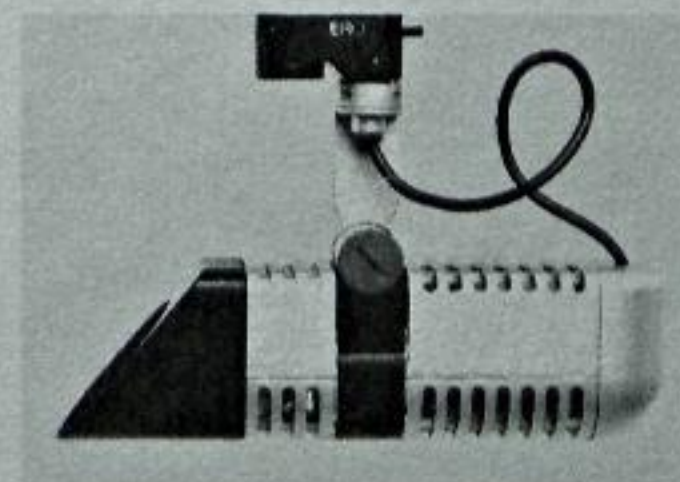
For the first time a national prize "Good Shape" is awarded for the design of a driver's seat. The cockpit of the BMW automobiles is awarded many prizes. The jury's decision for the BMW 633 CSI: "the excellent design concept is evident in all details of the driver's seat. An exceptional solution is the good design of the driver's seat whose important technical and ergonomic requirements have been converted."



The integrated cockpit of the BMW 100 RS is the result of many aerodynamic and ergonomic studies. Safety awareness and sporty flair shouldn't be mutually exclusive.

The BMW motorbike R 45/65 rounds off the BMW motorbike program in a downward direction.

1978 there is concern about the future energy resources. Besides atomic power, other alternatives for additional sources of energy are discussed: sun and wind, ground warmth and bio gases. In automobile production, electronics penetrate. Plastics are increasingly being used. At BMW future engine concepts are being worked on.



From 1978 on the BMW 323i has had a six-cylinder engine. With this vehicle concept BMW is reverting back to its tradition of having cars with compact sizes powered by high performance aggregates.

The light is no longer only a fixed bundle of brightness. It is also used for architectural accentuation.

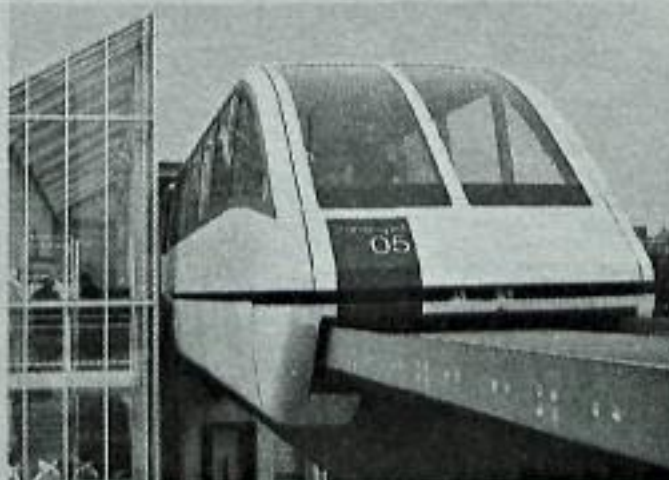
The newly developed anti-blocking system (ABS) at BMW increases driving safety. An example of the miniaturization of electronic components is the world's smallest television.

1978 BMW causes a sensation throughout the world! The M 1 (M for Motorsport) is just 1 meter 14 high. Its body is made of plastic. Designed by the Italian automobile designer Giorgetto Giugiaro.



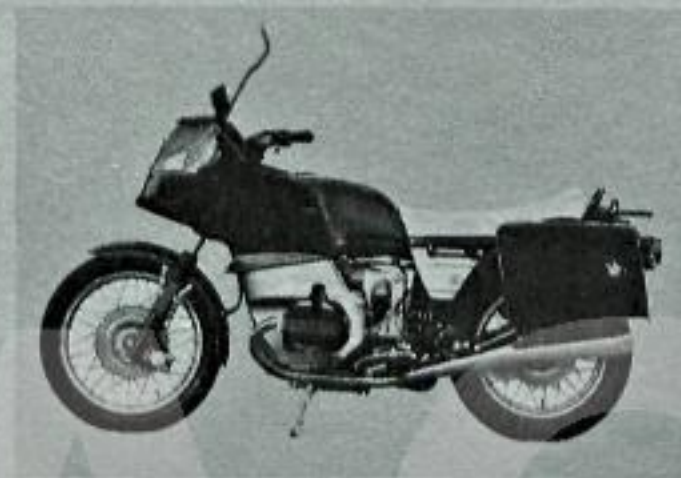
New transport systems are tested. The Transrapid 05 is built by a consortium of companies. The development of this magnetic train was subsidized by the Federal Ministry for Research and Technology.

Bruno Giacomelli is the European champion of the Formula 2 class. With a March BMW racing car he drives from victory to victory. Marc Surer is second, also a member of the Polifac junior team.



Like wild fire, a new kind of sport catches on round the world: jogging.

The authorities in 70 different countries of the world are delivered with BMW motorbikes. The BMW 100 RT is new in the motorbike program. It is made for long distances.



The do-it-yourself enthusiasm of many Americans increasingly produces new mobile home curiosities. A suitable vehicle for a world trip is built by a German couple.

Everywhere the bicycle experiences a renaissance. The "city cycle" from the Japanese Tsuchida moves by means of a nylon transmission. Of course it also folds up.

For the BMW 635 CSI a specific spoiler system is developed in intensive wind canal tests. It renders the vehicle more stable at high speeds and in curves. Wide spoilers take over this function in front and in the rear.

The earth moves closer to Venus. Space technology continuously reaches further into space. And increasingly shorter is the distance between the knowledge gained from astronautics and their application.

Personnel and Social Report

At the end of 1978 the BMW Concern employed approximately 37,500 persons in the Federal Republic of Germany, 9,300 more than at the start of the recession at the end of 1973. Abroad, BMW has created or taken over some 2,000 new jobs during the last five years. Including the employees of the Dutch and Australian import organizations taken over on January 1, 1979, there are at present some 40,000 people working for the BMW Group around the world. The number of employees has increased over a period of five years by far more than a third.

In the Munich-Milbertshofen plant at the end of 1978, more than 20,000 people were employed for the first time. At the plant in Dingolfing there were about 12,000 people employed, and at the Landshut plant about 1,000. BMW has for a long time been the chief employer in Lower Bavaria, and with considerable effort on its own part makes a substantial contribution to employment in general in this region. The unemployment rate at the labor exchange responsible for the region was 3.4%, which is below the Federal average. In towns like Passau and Deggendorf, which have similar structural disadvantages, the rate was almost four times as high.

The structure of the workforce underwent a change compared with the previous year. The proportion of salaried employees rose again, in particular as a result of employment in the Department of Research and Development. The number of new employees increased here about three times more than the total workforce did.

The proportion of foreign employees in the workforce remained almost unaltered during 1978, having dropped over the last five years from a third to barely a quarter as a result of legal restrictions. In the Munich plant more than 50% of all wage earners are foreign. More than half of them have been working for BMW for at least five years. However, many foreign employees return to their own countries after some years to build up a new life there with their savings. It is becoming more and more difficult for BMW to replace these people.

Due to the rapid increase in personnel during the last few years data on period of employment, average age, numbers of persons celebrating a jubilee etc. lose weight as a measure of satisfaction on the part of the employees. The fact that BMW also offered attractive jobs in 1978 is shown by the fluctuation rate. It dropped again.

The number of applications for a position as an apprentice in 1978 was again many times more than the positions available, although — out of a sense of responsibility — far more training positions were offered in relation to the total workforce than the average for the industry. In December 1978 there were for the first time more than 1,500 young people in training. Apprentices who took their final examinations during the course of the year under review achieved for the most part very good results. All skilled workers trained at BMW and qualifying in 1978 could continue working for the company.

Further training of staff already employed by BMW remained a factor of prime importance in the company's personnel policy. The costs incurred for this count as long-term personnel investments which certainly contribute to BMW's productivity and competitive strength. This expenditure rose by half compared with the previous year. The number of internal courses was even doubled. Despite a rise in the number of participants by two thirds, it was possible to reduce the average number of people attending the individual courses, so intensifying the training. Twice as many skilled workers and employees in managerial positions took part in external seminars of all kinds as in the previous year.

The management of the company was prepared during the year under review for the specific requirements relating to new forms of organization at departmental and inter-departmental level. A long-term further training plan was also adopted for these people.

Participation in the suggestion system, a mark of constructive thinking by a critical team, reached a new peak in 1978. The number of suggestions awarded a premium rose by two thirds and the total premium volume rose by approximately one third exceeding DM 1 million for the first time.

As in previous years particular attention was given both to the question of safety at work and health care, and also to the broad field of improved working conditions. Apart from practical instruction as to safe conduct at the place of work, the organizational aspect was given particular attention in new buildings. The new assembly line for the small six-cylinder engines exemplifies the fact that humanitarian working conditions and economical production need not contradict but can on the contrary usefully supplement each other. Thus work which is especially monotonous and tiring has been automated and back-up staff make it possible for the assembly-line workers to take short breaks.

In one BMW plant questions concerning satisfaction at work were examined in detail early in 1978. The result: concerning function, pay, working conditions and relationships with superiors and colleagues, almost all employees clearly expressed their satisfaction.

The total expenses of BMW AG for personnel – wages and salaries, social security contributions, old-age pensions and benefits rose compared with the previous year by 6.5%, that is by DM 88.4 million, to DM 1,439.2 million. It has thus increased by 112% since 1973. At the same time wages and salaries increased by 109% whilst social security contributions rose out of proportion by 142%. The corresponding increase in the number of employees was only 27%.

The increase in personnel expenses for the year under review is attributable to increased staff, an increase in wages and salaries according to the tariff of 5% from February 1, 1978, the increase in social security contributions as determined by law and to the improvement in company benefits. Due to the increase of the assessment-of-contributions limits for the pension fund, unemployment insurance and health insurance, the social contributions amounted to 14.6% of the wage and

Social Expenses of BMW AG

DM million	1978	1977
Legal and Collective Social Expenses		
Social security contributions	178.3	155.7
Sick pay	61.7	52.5
Paid public holidays	36.0	28.7
Collective vacation pay (50%)	46.8	42.1
Capital forming payments	12.5	10.8
Collective time-off pay	9.4	8.5
Collective part of 13th month wages and salaries	31.7	26.1
	376.4	324.4
Operating Social Expenses		
Canteens, travel expenses, housing subsidies, health-care etc.	41.6	39.3
Additional Social Expenses		
Old-age pensions and benefits	37.3	102.4
Christmas bonus and profit-sharing	75.8	67.8
Other benefits such as long-service and loyalty premiums, times-off, additional vacation etc.	21.2	20.6
	134.3	190.8
Total	552.3	554.5

Personnel Development

	1978	1977
BMW Group	39,817	37,581
BMW AG	35,171	33,398
thereof:		
Head office and		
Munich plant	20,465	19,360
Dingolfing plant	12,191	11,613
Landshut plant	980	934
BMW regional offices	1,535	1,491

salary total expenses, compared with 14.2% the year before. The additional expenses for social security contributions incurred on account of the tariff increases, cost the company a further DM 8.9 million.

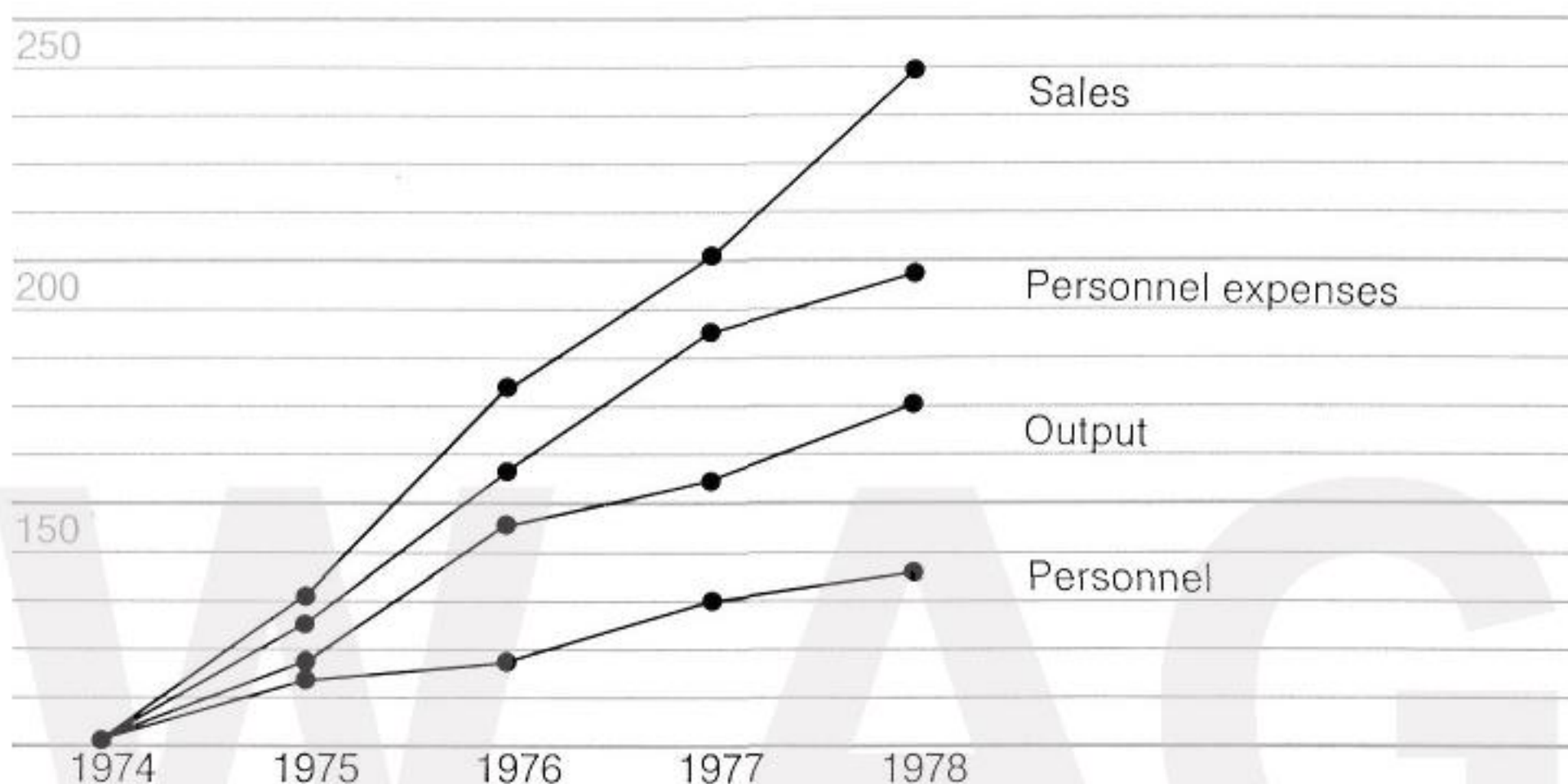
In 1978 a profit share of DM 26.8 million for the business year 1977 was paid to BMW employees. The Christmas bonus rose, not least because of the increase in personnel, to DM 72.2 million. The approved subscription amount for the registered participating debenture bonds was raised to DM 25.0 million. Also in 1978 the favorable conditions and good economic development of the company induced a greater readiness on the part of the employees to subscribe.

Summarizing, it can be said that in 1978 a 5% increase in the number of personnel compared with 1977, rendered the production and sale of more than 10% more automobiles possible. It must be taken into consideration that the number of employees increased more in the previous year compared to the production as a result of new model series starting up and the modification in plant structures. Working on the sound principle of engaging new people only for jobs which are secure on the long run, BMW was more reserved during the year under review. Thus in 1978 some extra shifts and overtime were necessary.

At this point the Managing Board would like to thank all employees for their co-operation and performance.

Personnel Expenses Sales, Personnel and Production of BMW AG

Index 1974 = 100



2 492,3	3 254,5	4 287,0	4 993,0	5 959,2	Sales in DM million
100,0	130,6	172,0	200,3	239,1	
728,0	902,7	1 135,6	1 350,8	1 439,2	Personnel expenses in
100,0	124,0	156,0	185,5	197,7	DM million
188 965	221 298	275 022	290 236	320 853	Output
100,0	117,1	145,5	153,6	169,8	
25 805	28 989	30 192	33 398	35 171	Personnel at end of year
100,0	112,3	117,0	129,4	136,3	

The Company and the Public

The events in Iran have, after several years of relative stability on the mineral-oil markets, once again made it clear to the Western world just how dependent the modern economy is on an uninterrupted oil supply. This has resulted in public discussion as to the necessity of saving energy in all spheres of life. Feelings have in fact only been aroused since the turn of the year 1978/1979, throwing a different light on the developments of the previous year.

The energy saving programs pursued for years by various governments became increasingly important. The automobile industry was requested for years to increase its innovational activity concerning new driving systems. The results have just been registered with great interest.

In October 1978 BMW brought out two more economical petrol engine models still under development and a turbo diesel engine, almost ready for series production, based on the existing small BMW six-cylinder engine. These developments show that BMW had made the more economical consumption of fuel to a central development target long before there was any public discussion. This resulted from a long-standing tradition and under the laws pertaining to market economy which make constant innovational activity necessary.

BMW made a point of informing the public of current developments very early on. Overriding points of view played a role here; it was planned to inform everyone of the actual stage of research, and thus to warn against exaggerated short-term expectations.

BMW also took on more general responsibilities with respect to the areas where its plants are situated. In April 1978 a BMW cultural program was created expressly for Dingolfing, a small Lower Bavarian town, which despite the constantly increasing size of the automobile factory and its personnel, has been able to keep its number of inhabitants constant and to retain its original character. In co-ordination with local cultural associations, an additional, very ambitious program was launched, which unexpectedly gained a high level of appreciation fairly quickly. Even in the first year under review (April 1978 to March 1979) there were 29 performances with a total audience of 10,000. Classical music and jazz concerts comprising international artists, theatre performances of all kinds and folk music proved especially popular. Chamber concerts, readings by poets from their works, and exhibitions by well-known artists also attracted an interested audience.

The cultural events provide amongst other things the opportunity to integrate the increased management acquired by the plant into the town of Dingolfing.

BMW's series of successes in motor sport continued in 1978. For the fourth consecutive time a driver of a BMW 3.0 CSL won the European Touring Car Championship. For the first time since 1970 there was again a champion title in Deutscher Automobil Rennsport for the white-blue colors. Added to this were a vice-championship, three European champion titles and fourteen national championships.

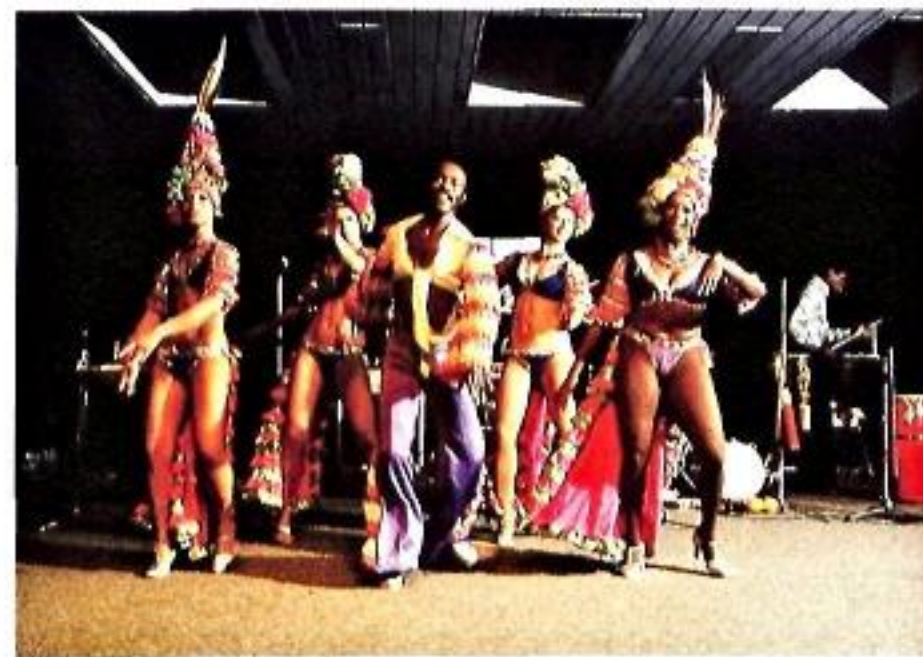
The outstanding result, however, was the victory of the formula-2 European Championship by Bruno Giacomelli. With the formula-2 team the BMW Motorsport GmbH led the BMW Junior idea started in 1977 in touring car sport,

to a new climax. The three BMW juniors, who all piloted identical March BMW formula-2 racing cars, achieved eight firsts, ten seconds and ten thirds in the exceedingly difficult Formula-2 European Championship 1978. This final result of the championship permanently documents the great success: the champion and the vice-champion in Europe come from the Polifac BMW Junior Team.

The four-cylinder BMW engine based on the 2 liter series engine again enjoyed a decisive degree of success in the Formula-2 European Championship, won by Harald Ertl with a BMW 320 turbo. Increased performance and the proven reliability of these four-cylinder racing engines make them the most successful automobile racing engines.

In cross-country motorbike sport the participating BMW riders were successful in their classes. With sidecars they won the champion title and in solo sport above 750 cc capacity the vice-champion title.

Parallel to active sports involvement, the BMW Motorsport GmbH advanced with the development of the BMW M 1 whose standard form went into series production early in 1979 and will participate in its first sporting events this year in the newly-organized Procar series. Only BMW M 1 will be driven in this series. The special attraction is that five formula-1 racing drivers meet in a field of fifteen to twenty private teams. The Procar series will be held on the occasion of eight European Grand Prix races.



The BMW cultural program in Dingolfing: chamber music and jazz, folk music and dancing, comedies and country theatre, poetry readings and art exhibitions are becoming increasingly popular throughout the region.

Subsidiaries

Domestic

BMW Motorrad GmbH, Munich

Motorbike markets did not conform to a uniform pattern in 1978. The most important market of the Western world, the USA, experienced a decline in sales of approximately 7%. Within Western Europe, however, there was a further increase in some, if not in all countries. This holds especially for the Federal Republic of Germany, with some 85,000 licences after approximately 67,000 in the previous year. Contrary to this, Austria and Belgium showed a decline.

For the BMW Motorrad GmbH, the business year 1978 was not as good as the previous year. Due to the success of the small R 45 it was in fact possible to increase domestic sales by some 25%. This, however, is not yet indicated by the number of licences, since most of the deliveries were in the autumn and thus served mainly to replenish dealers' stocks for business in the new year. BMW licences were thus 3% down on the previous year.

Decisive losses were suffered in motorbike export. The revaluation of the DM and the increased competition as regards price and model on the part of Japanese manufacturers contributed to the decline in export of 26%. Thus the traditionally very high demand for BMW bikes sank on the US market by some 40%. It was not possible to make up for this decline with the success achieved on other individual markets. In Great Britain, for example, the number of BMW bikes licensed rose compared with the previous year by over 60%. Because of the high proportion destined for export, the total sales situation remained unfavorable in 1978.

BMW Motorrad GmbH's production suffered from the effects of the three week strike in the ancillary industry. Production had to be stopped on nine workdays. Since 1978 had altogether 3 fewer workdays than the previous year, the decrease in production

of 6% corresponds approximately to the loss in workdays. On average, the same number of motorbikes were produced per workday as in 1977. This occurred with a reduction of 2% in the number of employees. At the end of 1978, 1,795 people were employed by BMW Motorrad GmbH. 29,580 motorbikes were produced, after 31,515 in the previous year.

As a result of the influences mentioned, the sales recorded by BMW Motorrad GmbH in 1978 were 14% down on the previous year; they amounted to DM 208.7 million. Results deteriorated noticeably due to the additional fact of the decline in sales occurring simultaneously with wage increases of over 6%. Besides this it has to be kept in mind that the results were strongly influenced by utilization of special depreciation allowances pursuant to sec. 14 Berlin FG (Berlin Promotion Law). These results were compensated by the profit and loss absorption agreement signed with BMW.

The planned long-term investment projects for reorganisation and restructuring of the motorbike business were systematically continued. The capital expenditures for the year 1978 amounted to a total of DM 28 million for the construction of new factory workshops, streamlining measures and investments for the new model series R 45 and R 65. The new models were presented in summer 1978 and were given a good reception by journals and market alike. In the remaining months of 1978 following its introduction the BMW R 45 recorded the highest number of licences for motorbikes on the West-German market. It was chosen by the readers of a motorbike magazine as the most sensible motorbike of the year.

The 1,000 cc motorbike series was extended by the R 100 RT with an integrated cockpit. This model was especially developed for touring; it fulfills the special police requirements in many international markets. The big BMW motorbike series thus includes two sport versions the R 100 S and the R 100 RS

and two touring versions the R 100 T and R 100 RT.

Development of the BMW motorbike business in 1979 will be influenced by the unsatisfactory currency situation and by further increase in competitive pressure. It will require considerable effort to further the stabilization of the market position begun with the successful introduction of the BMW R 45/R 65, against the keen competition from Japan.

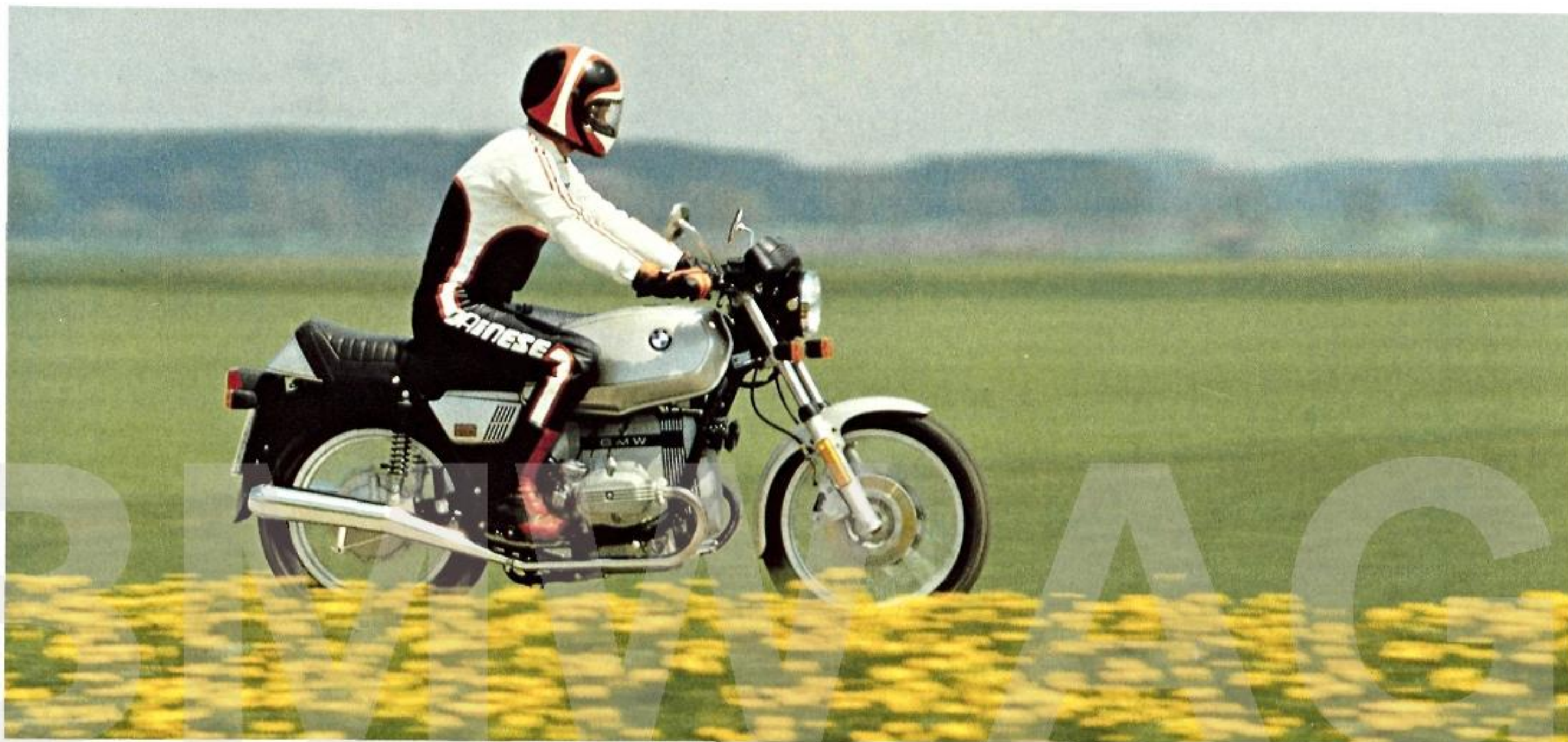
BMW Marine GmbH, Munich

The business year 1978 for BMW Marine GmbH was marked by the start of production and sales activities. The BMW four and six-cylinder petrol engines with 86 to 136 kW (120 to 190 hp), modified for boats, and a newly developed Z-type propeller came on the market early in 1978. The range was extended at the end of the year when two models of the small diesel series went into series production. It is planned to supplement this program in 1979 with three further diesel engines of up to 100 kW (approx. 130 hp).

The BMW marine engines were well received on the market, as is reflected by the journals' assessment and by rising demand.

Establishment of a sales and customer service network specializing in the boat market was continued during the year under review. The bases will be affiliated with some existing BMW subsidiaries in France, Italy and in the USA from January 1979. Their employees will be systematically trained at BMW Marine GmbH in Munich.

Sales and profit in 1978 developed according to plan. The common stock was raised in December 1978 by DM 3.0 million to DM 6.0 million.



The R 45 was presented in summer 1978. It is the most successful BMW motorbike at present.

BMW Leasing GmbH, Munich

The leasing business is growing from year to year on the automobile markets to a remarkable extent. At the end of 1978 there were about 125,000 leased automobiles in the Federal Republic of Germany; in the USA already 25% of all automobiles are purchased and leased by leasing companies. Owing to these interesting market prospects the number of companies in this business has increased, making competition keener.

Despite increased competition BMW Leasing GmbH raised the number of its new contracts via the BMW dealer network by 40% in 1978. A considerable contribution was made here by extending the services and differentiating between the types of contract for special sectors of the market. The leasing program includes all BMW models.

The company's turnover increased considerably. The increased scope of business necessitated a further common stock increase in December 1978 of DM 2.5 million. The common stock of BMW Leasing GmbH now amounts to DM 5 million.

BMW Motorsport GmbH, Munich

In 1978 the company reached a peak in motor sport successes since its foundation in 1972. All important European competitions such as the Formula-2 European Championship, the European Touring Car Championship and the German Automobile Racing Championship were won by BMW.

The company's sales increased compared to the previous year. This resulted from successful sales of racing engines, sales of complete racing cars in kit form, tuning of BMW series' vehicles and motorsport orientated accessories. The road-traffic version of the BMW racing car M 1 has been on the market since March 1979.

Schorsch Meier GmbH, Munich

Due to limited availability the company was unable to expand its automobile business beyond the very high volume of previous years. Motorbike sales, on the other hand, increased.

Turnover and profits were satisfactory.

Bavaria Wirtschaftsagentur GmbH, Munich

In the business year 1978 the company achieved the best results since its foundation in 1971.

Besides attending to the insurance needs of the whole BMW Concern there was especially an increase in employees' and third person insurance.

At the beginning of 1979 the BAVARIA-LLOYD Reisebüro GmbH was founded jointly with Euro Lloyd M.V.B. Reisebüro GmbH. The new subsidiary will further expand the hitherto promising business in the travel sector.

Obermeyer Project-Management GmbH, Munich

Focal points of the company's activity were again traffic projects and industrial construction projects. Despite keen international competition it was possible to increase the turnover in the business year by about one third. The uncertainty resulting from the Iran crises will determine expectations for the current year.

BMW Kredit Bank GmbH, Frankfurt/M.

The company effects the purchase financing for the BMW dealer organization. The business year was marked by the continuing good market situation for BMW products. Increased use was made of bank credit programs. The market position was consolidated. Turnover and results were satisfactory. This trend continued in the first months of 1979.

Profit and Loss Absorption Agreements

have been made with BMW Motorrad GmbH, BMW Marine GmbH, BMW Leasing GmbH, BMW Motorsport GmbH, Schorsch Meier GmbH and Bavaria Wirtschaftsagentur GmbH.

BMW AG

Foreign

BMW of North America Inc., Montvale, N.J., USA

In the USA the automobile business cycle stagnated during 1978. The number of licences was, with 11.3 million units, only 1% above the level – a very high one – of the previous year. At the same time imports declined by 4%, affecting Japanese manufacturers in particular. 12% fewer automobiles were imported from the Federal Republic of Germany than in the previous year. It was possible, however, to maintain the market share of West German makes since some of the production, corresponding to the extent of the import loss, was moved to the USA.

Despite the rather unfavorable conditions, for the first time more than 30,000 BMW automobiles were sold in the USA during 1978, although the prices had to be raised several times on account of currency fluctuations. The market share increased slightly.

In September 1978 the first BMW model with exhaust catalyzer was launched on the USA market. The especially developed BMW 528i replaces the BMW 530i; in spite of reduced capacity it boasts almost the same performance data and has a lower gas consumption. In spring 1978 the BMW coupé 633 CSi – with a more powerful engine and better-equipped – replaced the coupé 630 CSi. At the same time the BMW 733i came onto the USA market.

Whilst the turnover of BMW of North America Inc. rose compared with the previous year by about one third – not least as a result of the higher proportion of expensive models – the result was impaired by the severe fall in the dollar rate.

BMW France S.A., Bagneux, France

In France, the automobile business cycle reached a new peak in 1978, with a 2% increase in the number of licences compared with the previous year. Domestic manufacturers profited in particular from this, also by introducing

new models. Imports fell by almost 4%. Due to the currency and cost induced price trend the German makes were not entirely able to retain their licence share, whilst Italian and British manufacturers improved their market position slightly. Compared with the total market the sales achieved by BMW France S.A. were very good. Despite rising prices three times due to exchange rates, 15,275 automobiles were licensed, 13% more than in the previous year. The market share held by BMW thus increased slightly.

The licence gains of all BMW models were above class average. The largest increases were achieved by the 7-series, following their introduction in summer 1977. The improved model mix contributed to the satisfactory trend in turnover and profit development.

BMW Belgium S.A./N.V., Kontich, Belgium

The Belgian automobile market showed a decline of 1% in 1978 after the record results of the previous year. With some 418,000 licences the second best result ever was achieved. The German makes were able to increase their share to 35%. As a result of the weak dollar rate, American manufacturers sold more than half again of the volume sold in the previous year, starting nevertheless at a low level. The Japanese, French, Italian and British makes were unable to improve their market position.

The number of BMW vehicles licensed rose by 20% and the market share approached 3%. Also in Belgium this development is to be attributed to the success of the automobiles with the new small six-cylinder engines and the 7-series. The corresponding models of the 3-series (320 and 323i) thus showed a growth of 19% whilst the comparative class increased only slightly; of the 7-series, 82% more were sold than in the previous year. Demand exceeded the supply during the whole year; the order backlog is clearly above that of the previous year whilst stocks remain at a minimum.

The increased sales and brisker demand for higher priced models positively influenced turnover and results.

Due to the increased scope of business, BMW Belgium S.A./N.V. raised its capital in September 1978 by BF 20 million to BF 66 million.

BMW Italia S.p.A., Milan, Italy

With a present estimated increase in licences of 13% compared to 1977, the Italian automobile market proved considerably more dynamic than the national economy. Despite relatively high price increases, foreign manufacturers were able to retain their 36% share.

The licence statistics for 1978 are not yet available. The number of BMW automobiles licensed is estimated to have increased by 30% to more than 20,000 units, which would correspond to a market share of 1.5%. In view of the rather difficult sales situation confronting BMW Italia S.p.A. in 1978 this trend is pleasing. Rates of value added tax were altered again. They put the leasing business at a disadvantage and favor the competitive situation for diesel automobile manufacturers. BMW's catalogue prices had to be increased four times, mainly resulting from the fall in the lira.

Compared with other large export markets the BMW 3-series was the most popular model due to tax reasons. In the year under review, however, the model mix shifted to the large models. More than twice as many automobiles of the 7-series were sold as in the previous year. This trend also had a favorable influence on the company's turnover and profit.

BMW (Schweiz) AG, Dielsdorf, Switzerland

Compared with the however excellent result of the previous year, the automobile business activity in Switzerland reached a new climax in 1978. Exchange rate trends which were advantageous for buyers and the strong competition amongst manufacturers led to automobile prices being reduced several times during the course of the year. This stimulated demand. The number of licences rose by 16% to some 272,000 units. The proportion of automobiles, comprising 44% from the Federal Republic of Germany could not quite be maintained, whilst French, Japanese and American manufacturers improved their positions slightly.

In Switzerland some 11,400 BMW automobiles were licensed in 1978, 23% more than in the previous year. The market share of BMW vehicles rose as a result from 4.0% to 4.2%. The appreciation of the Swiss franc was passed on to the buyers in four stages in the form of price reductions. The order backlogs at the end of 1978 were almost 50% higher than the figures of the previous year.

The large models again showed the strongest growth rates; their class share rose from 12% to almost 16%. During the second half of 1978 the coupé 635 CSi was introduced onto the market.

The company's turnover increased, but not as much as physical sales due to repeated price reductions. The result, however, was most satisfactory.

BMW Austria Ges.m.b.H., Salzburg, Austria

The Austrian automobile market suffered the expected slump in 1978. The number of licences decreased by 47% compared with the record result in 1977 with its many advance automobile purchases. The reason was the increase, with effect from January 1, 1978 in the value added tax from 18% to 30% and the limitation on deducting car costs from tax. The average volume of licences for the years 1977/1978 together exceeded the 1976 result.

German manufacturers were able to raise their market share slightly to almost 57%; Japanese and Italian makes rose to 7% and just 10% respectively, whilst the market shares held by French and British manufacturers sank slightly.

BMW Austria Ges.m.b.H. started up business in January 1978, at a very unfavorable time. With a decline in BMW automobile licences of only 21%, however, the best result in relative terms of all well-known manufacturers was achieved. It was even possible to increase the market share to almost 4%. The improved market position affected all models, but especially automobiles of the 6- and 7-series. They accounted for a good quarter of all licences in the comparable automobile class, thus taking first place.

Besides the price increase – moderate in comparison with the competitors – flanking measures also contributed to the relatively good result achieved by BMW: a financing program was introduced for dealers and customers whilst the dealer network was reduced to 75 and at the same time restructured.

At the beginning of 1979 construction of a company-owned import center was begun in Salzburg-Maxglan. In conjunction with this BMW Austria Ges.m.b.H. raised its capital in January 1979 by AS 30 to AS 45 million.

BMW (South Africa) Ltd., Pretoria, South Africa

Following a recession lasting more than three years, signs of a revival in business in South Africa increased during 1978. The real economic growth was about 3%, compared with only 0.5% the previous year, resulting from high demand for long-term consumer goods. The foreign trade balance also showed a positive trend due to increased exports in the basic materials sector (gold and uranium) whilst imports were discouraged by tax measures.

The country's economic problems were characterized in 1978 by high rates of unemployment, further upward trends in prices and a continuing drain of investment capital. At the beginning of 1979 the supplies of crude oil from Iran stopped, which had previously constituted a substantial part of the domestic consumption for a long time. The possibility of a renewed setback in economic activity can thus not be excluded.

The South African automobile market revived noticeably during the year under review. The increase in numbers of licences by 23% made up for the decline in the previous year. The average volume for these two years, however, still lies far below that of the last normal sales' years 1973 to 1975.

Growing competition from European makes determined the business, especially with the higher priced models. It was only possible to implement price increases to a small extent made necessary on account of the general increase in costs. The trend towards smaller automobiles continued, also as a result of more restrictive government measures.

With a total of 8,150 automobiles sold, BMW achieved the best figures ever. Sales rose by 31% compared with the previous year. In South Africa the 13% growth rate was below the overall market increase. The reasons for this were structural market changes such as the abovementioned trends towards smaller models, and supply difficulties dependent on production during the first six months. The BMW market share amounted to 3.4% after 3.7% the year before. The company was hitherto however the first South African automobile firm to export vehicles during the year under review. Some 1,200 BMW automobiles were exported.

The BMW 7-series, introduced onto the South African market at the beginning of 1978, proved very successful. With more than 1,500 new licences, it was possible to clearly increase the class share. The starting up of the production of the 7-series had necessitated investments of some DM 36 million.

BMW sales showed a strong increase in the first quarter of 1979. The market share held by BMW South Africa rose again to more than 4%.

As a result of the severe devaluation of the Rand, whose rate was tied to the Dollar, company purchases continued to go up in price. Its cost level was thus negatively influenced and impaired the result again, despite the considerable rise in sales.

The number of employees rose compared to the previous year by 201 to a total of 1,213. This number includes 970 black employees at present, of whom more than half are unmarried and a further 30% have to support a household of only two to four people. The average income of all black BMW employees is 56% above that calculated to be the existence minimum for a four-member household in the Pretoria region. Added to this are company social expenses and benefits, such as accident and health insurances, canteen and transport allowances etc.

The multiracial training center of BMW South Africa, opened early in 1978,

was frequented during the year under review in more than two thousand cases by BMW employees attending courses. At the moment, fifteen black employees are attending a two year training course here to fill supervisory positions in the plant.

Bayerische Motoren Werke
Aktiengesellschaft, Munich
Common stock: DM 500.0 million

Domestic

100% *
BMW Motorrad GmbH,
Munich,
DM 12.0 million
Production and marketing
of motorbikes

100% *
BMW Maschinenfabrik
Spandau GmbH,
Berlin
DM 6.0 million
Industrial company

100% *
Bavaria Wirtschafts-
agentur GmbH,
Munich
DM 0.2 million
Service company

BAVARIA-LLOYD
Reisebüro GmbH
Munich
DM 0.02 million
Service company

100% *
Schorsch Meier GmbH,
Munich
DM 0.3 million
Marketing company

100% *
Fahrzeug- und Maschinen-
fabrik GmbH Landshut,
Landshut
DM 0.3 million
Property company

100% *
BMW Marine GmbH,
Munich
DM 6.0 million
Production and marketing
of marine engines

100% *
BMW Leasing GmbH,
Munich
DM 5.0 million
Leasing of cars
and motorbikes

100% *
BMW Motorsport GmbH,
Munich
DM 0.02 million
Participations in motorsport,
manufacturing and marketing
of products for motorsports

95% *
BMW Grundstücksgesellschaft
Berlin GmbH,
Berlin
DM 0.02 million
Property company

50%
BMW Kredit Bank GmbH,
Frankfurt/M
DM 9.0 million
Finance company

50%
Obermeyer Project-
Management GmbH,
Munich
DM 0.4 million
Planning company

Important interests
held by BMW AG
in April 1979

* Included in the consolidated
financial statement

Foreign

<p>100%</p> <p>BMW (US) Holding Corp., Wilmington, Del., USA US \$ 8.0 million Holding</p> <p>100%</p> <p>BMW of North America Inc., Montvale, N.J., USA US \$ 4.0 million Marketing of BMW products</p> <p>80% 20%</p> <p>BMW France S.A., Bagneux, France FF 13.0 million Marketing of BMW products</p> <p>100%</p> <p>BMW Italia S.p.A., Milano, Italy Lit 1.0 billion Marketing of BMW products</p> <p>100%</p> <p>BMW Nederland B.V. 's-Gravenhage, Netherlands DFL 0.5 million Marketing of BMW products</p> <p>100%</p> <p>BMW (GB) Ltd., London, Great Britain £ 2.0 million Marketing of BMW products (from 1. 1. 1980)</p> <p>100%</p> <p>BMW (Australia) Pty. Ltd., Springvale, Vic., Australia A \$ 0.05 million Marketing of BMW products</p> <p>20%</p> <p>BMW Distributors Eastern Canada Ltd., Scarborough/Ont., Canada C\$ 0.02 million Marketing of BMW products</p>	<p>100%</p> <p>BMW Holding AG, Zürich, Switzerland SF 10.0 million Holding</p> <p>100%</p> <p>BMW (Schweiz) AG, Dielsdorf, Switzerland SF 0.5 million Marketing of BMW products</p> <p>100%</p> <p>BMW Austria Ges.m.b.H., Salzburg, Austria AS 45.0 million Marketing of BMW products</p> <p>100%</p> <p>BMW Belgium S.A./N.V., Kontich, Belgium BF 66.0 million Marketing of BMW products</p>	<p>100%</p> <p>BMW (South Africa) (Pty) Ltd., Pretoria, South Africa Rand 8.9 million Production and marketing of BMW products</p> <p>100%</p> <p>BMW Overseas Enterprises N.V. Willemstad, Curaçao, N.A. DM 2.0 million Finance company</p> <p>50%</p> <p>BMW-STEYR Motoren Ges.m.b.H., Steyr, Austria AS 50.0 million Development, production and marketing of diesel engines</p>
--	---	---

Finance

During the year under review BMW AG invested DM 354.5 million in tangible fixed assets and financial assets compared to DM 396.1 million in the previous year. To finance this, DM 257.0 million were available from depreciation and retirements of tangible fixed assets (DM 225.3 million in the previous year), DM 70.0 million (DM 60.0 million in the previous year) from the transfer from net income to reserves and DM 32.3 million (DM 97.4 million in the previous year) from transfer from provisions for old-age pensions and additions to the benevolent fund. In this way, 101.4% of investments compared to 96.6% in the previous year were covered by internal financing. Besides the transfer from net income to reserves with regard to capital budgets and the future growth, the company resources were strengthened by the increase in capital in 1978, adding DM 104.0 million to common stock and DM 49.8 million to legal reserves.

Long term liabilities were decreased by DM 49.8 million. At the same time a shift in financing from long term liabilities with short maturities to lower interest-bearing loans with long maturities was effected by making the most of the favorable capital market situation.

During the year under review BMW AG received DM 108.8 million more long term funds than were invested long term; these additional funds are earmarked for planned investments.

As a consequence of the course of business and of the strengthening of the shareholders' equity basis the liquidity of BMW AG has further been increased. Liquid funds rose by DM 294.7 million to DM 513.1 million.

Sources and Application of Funds 1978

DM million

Application of funds		Sources of funds	
Investments in tangible fixed assets	304.9	Increase in common stock	104.0
Investments in participations ¹⁾	4.5	Transfer to reserves from premium	49.8
Investments in other financial assets ¹⁾	45.1	Depreciation and retirement of tangible fixed assets	257.0
Decrease in long term liabilities	49.8	Increase in pension fund provisions and liabilities to benevolent fund	32.3
Long term	404.3	Transfer to other reserves from net income	70.0
Increase in liquid funds	294.7	Long term	513.1
Increase in receivables to subsidiaries (less liabilities)	79.1	Increase in other provisions	189.0
Distribution for the previous year	65.3	Increase in trade payables	6.3
Short term	439.1	Increase in miscellaneous liabilities (including advance payments received)	19.5
		Decrease in inventories	2.2
		Decrease in trade receivables ²⁾	30.0
		Decrease in miscellaneous assets	2.7
		Balance sheet profit	80.6
Short term	439.1	Short term	330.3
	843.4		843.4

¹⁾ Offset against retirements and depreciation

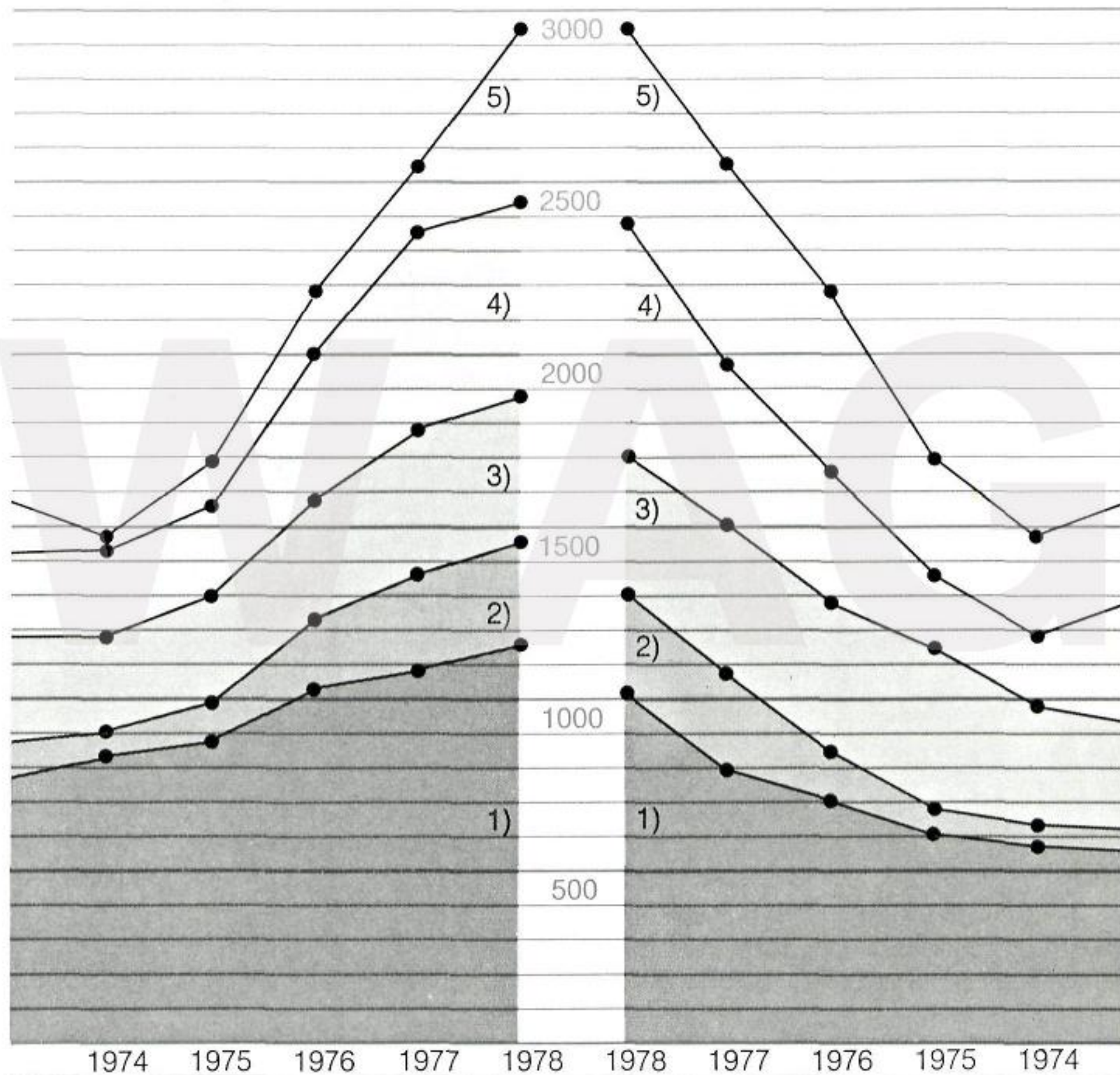
²⁾ Less general allowance for doubtful accounts

The ratios of the assets and capital structure again improved considerably compared to the previous year. While the share of tangible fixed assets and financial assets further decreased to 49.5% of the balance sheet total which increased by DM 383.9 million (15.1%), the share of shareholders' equity rose from 30.9% to 34.5%. Fixed assets are covered by 117.5% (compared to 110.8% in the previous year) by long term funds. So for the first time, the shareholders' equity and the provisions and liabilities concerning pension funds covered more than tangible fixed assets and the investments in participations.

Development of the BMW AG

Balance Sheet

DM million



- 1) Tangible fixed assets
- 2) Financial assets
- 3) Inventories
- 4) Receivables
- 5) Cash

- 1) Shareholders' equity
- 2) Social capital
- 3) Long term liabilities
- 4) Provisions
- 5) Short term liabilities

Notes on the Financial Statement of BMW AG

Balance Sheet

Assets

Fixed Assets

A detailed report was given in the previous chapters on the additions to tangible assets and their application. The composition and the development of tangible fixed assets broken down into various asset types of investments are shown in the balance sheet.

In the year under review, the additions have been entered at procurement cost or at production cost for tax purposes. Scheduled write downs are governed by tax regulations concerning assessment of the useful life. This useful life is set at:

- 30–50 years for office and factory buildings, including distribution facilities installed in such buildings
- 50 years for residential buildings
- 5–20 years for real estate installations

Machinery and equipment as well as factory and office equipment with a useful life of more than 4 years have been depreciated for tax purposes by the declining-balance method; later conversion to the straight line method is planned. As in previous years, additions of admitted assets have been fully depreciated. For type-specific special tools acquired up to 1976, depreciation of the initial equipment for each model or assembly is calculated according to performance and the expected life of the model. Special tools from the 1977 year of acquisition on are being depreciated pro rata on the basis of a shorter expected life.

In 1978 again, full advantage was taken of all tax regulations for special depreciation allowances.

The domestic real estate of the company including that of related companies on statement date totalled 3.22 million sq.m. (3.26 million sq.m. in the previous year). It is chiefly located in Munich, Dingolfing, Landshut and Berlin.

Since 1972, BMW AG has leased its headoffice building, built on company land, under a lease running for 30 years. In 1978, lease rentals were DM 11.2 million. A heritable building right in favor of the lessor has been registered.

Depreciation Relating to Additions and Transfers in 1978 is as follows:	Additions and transfers in DM million	Depreciation in DM million
Real estate without buildings and with office, factory and other buildings		
(including residential buildings)	52.4	2.9
Buildings on land not owned	2.0	0.3
Machinery and equipment	202.0	43.9
Furniture and fixtures	36.9	21.4
	293.3	68.5

Financial Assets

Changes in the ownership of subsidiaries were extensively reported on in the chapter Subsidiaries. The acquisition of 51.1% of the shares of BMW (South Africa) (Pty) Ltd., Pretoria, South Africa from BMW Holding AG, Zürich, the increase in capital of BMW Leasing GmbH, Munich, and BMW Marine GmbH, Munich, affected the investments in participations with DM 5.5 million. The retirement of investments in participations concerns the sale of common stock of the Versicherungs Holding der Deutschen Industrie GmbH (Insurance Holding of the German Industry Inc.) as well as the transfer of a 10% interest in BMW (Australia) Pty. Ltd. Springvale, Vic., Australia, to BMW (US) Holding Corp. Wilmington, Del., USA.

The change in loans with a minimum term of four years mainly concerns acquisition and contractually agreed payments of loans.

Loans and securities listed under fixed assets serve as a long term liquidity provision for future BMW AG investment programs.

Inventories

Despite an increase in physical and nominal sales the inventories compared to the previous year show only negligible changes owing to the high demand, the stock of finished products is still low; the stock piling in raw materials and supplies, and in purchased merchandise and work in progress was lower than in the previous year.

As in previous years raw materials and supplies and bought parts have been entered at their cost prices regarding the lower of cost or market. Advantage was taken of the possibility of marking down for imported goods pursuant to sec. 80 ESt DV (Income Tax Regulations).

Work in progress and finished products have been entered at their production costs, that is, expenses for production materials plus direct labor costs and as output related shares of production and material overheads.

Write-downs for risks arising from prolonged storage or reduced technical marketability have been adequately allowed for.

Other Current Assets

Trade receivables decreased primarily because of necessary transfers to receivables to related companies resulting from the takeover of the marketing in Austria by BMW Austria Ges.m.b.H. Trade receivables comprise 60% receivables to domestic and 40% to purchasers abroad. All conceivable individual risks in the value of receivables have been adequately taken into account by means of write downs on the asset side, quite apart from the general allowance for doubtful accounts shown on the shareholders' equity and liabilities' side.

The increase in liquid funds has been explained in the chapter Finance.

Miscellaneous assets which decreased by DM 3.4 million include claims for investment grants, subsidies for tooling costs to suppliers, loans granted, claims from interest accounts, returns, freights and empties.

Shareholders' Equity and Liabilities

Common stock

The shareholders' meeting resolved on June 27, 1978 to raise the common stock by DM 104.0 million to DM 500.0 million by an issue of new shares. The new shares in the proportion of one new share against every four old shares held were offered to the shareholders at an issue price of DM 66.50 per share in respect of the legal subscription right. The premium of DM 32.67 million was transferred to legal reserves. The remaining excess shares of DM 5.0 million nominal value have been realized to the exclusion of the legal subscription right according to the resolution of last year's shareholders' meeting. These shares were sold to institutional investors for a price of DM 221.02 per DM 50 share. The resulting premium of DM 17.10 million was allocated to legal reserves as well. The increase in common stock was effected in August 1978.

Reserves

From the net income for the year under review DM 70.0 million were transferred to other reserves. The reserves, including the transfer from the increase in common stock, now total DM 511.3 million.

Special Items Containing Reserves

The value adjustments pursuant to sec. 6b EStG (Income Tax Act) for fixed assets disclosed under the mentioned item in previous years, were set off against the corresponding items of fixed assets. The comparative figures of the previous year were reduced in line.

General Allowance for Doubtful Accounts

Owing to the decrease in trade receivables, the general provision decreased by DM 2.7 million to DM 5.4 million. As in previous years, a reserve of 2.5% for domestic and 5.0% for foreign receivables has been formed to cover general risks inherent in trade receivables, notes, advances and miscellaneous assets.

Pension Fund Provisions and Liabilities to BMW Benevolent Fund

The old-age pension was explained in detail in last year's annual report in the chapter Personnel and Social Report. After the major transfers of the previous years resulting from the reform and improvements in our company old-age pension system founded in 1976, DM 32.6 million were transferred to pension fund provisions in the year under review. The actuarial calculations were based on an interest rate of 5.5%.

Of the pension fund provisions, DM 216.2 million are allocated to future rights and DM 40.0 million to current pensions. In the year under review a total of DM 1.6 million was transferred to the BMW Benevolent Fund to increase the necessary capital cover as a result of increased pension warrants. The number of service recipients decreased as the group of beneficiaries for current benefits has been limited since 1977.

Other Provisions

Other provisions increased primarily due to higher commitments to personnel, extended warranty and producer liability, taxes on earnings as a result of higher profits, settlement of accounts with dealers and suppliers, liability and litigation risks domestically and abroad and deferred maintenance. Adequate allowance has been made for all discernible risks.

Liabilities with a Term Exceeding Four Years

In the year under review long term liabilities from debenture bonds and against banks and other creditors were reduced by DM 49.8 million to DM 398.6 million. Mortgages valued at DM 74.7 million on the balance sheet date provide security for these loans. Currency liabilities were converted at the higher rates, quoted on reference date.

Registered participating debenture bonds, regularly issued to staff since 1974 now amount to DM 24.8 million and are included in miscellaneous liabilities. The capital formation of our staff has

been extensively commented on in the chapter Personnel and Social Report.

Other Liabilities

Trade payables increased by DM 6.3 million on account of the larger volume of purchases and investments. Liabilities to subsidiaries decreased after taking up a loan from BMW Overseas Enterprises N.V. Willemstad, Curaçao N.A. in the BMW Foreign Organization.

Miscellaneous liabilities include payroll and salary items, customers' credit balances, liabilities for interest payments and various other obligations.

Contingent liabilities, particularly guarantees accepted in favor of subsidiaries have been shown separately in the balance sheet.

Statement of Income

The favorable sales situation for BMW automobiles and BMW parts in the year under review allowed full utilization of the existing and new production capacities. The total value of production of the company increased from DM 5,063.0 million in the previous year by 17.6% to DM 5,954.7 million.

Expenses for material and personnel did not rise to the same extent. Expenses for raw materials, supplies and purchased merchandise after deduction of discounts allowed, increased by 14.1% to DM 2,989.5 million in the year under review. Gross income was 49.8% of total production exceeding that of the previous year (48.2%) in relative terms as well. On the one hand this is to be attributed to the shift to models with higher returns, on the other hand to the consequent utilization of all purchase advantages, especially increasingly abroad.

Income from other financial assets and other interest and similar income again increased by 75% due to the improved liquidity, whereas interest and similar expenses only increased by 21%, resulting in a balanced net interest position, which improved by DM 15.6 million.

Gains on liquidation of provisions accrued from lapsed risks in the settlement of accounts with suppliers and customers and from other obligations.

Miscellaneous income comprises mainly income from investment grants, rents and leases, service units, refunds of insurance premiums and foreign exchange profits.

Personnel expenses rose by DM 88.4 million (6.5%). Their share in the total value of production decreased from 26.7% to 24.2%. This development is due to both the full utilization

Expense Structure Relative to Total Value of Production					
	1974	1975	1976	1977	1978
Total Value of Production	2,513.1	3,234.6	4,300.6	5,063.0	5,954.7
DM million					
%					
Material expenses	53.9	52.8	51.5	51.8	50.2
Personnel expenses	29.0	27.9	26.4	26.7	24.2
Depreciation	5.6	4.4	3.7	4.4	4.2
Other expense and income items offset	8.9	10.0	10.8	9.8	12.6
Taxes	0.9	2.6	4.7	4.8	6.3
Net income	1.7	2.3	2.9	2.5	2.5

of all production capacities and the significant increase in the total value of production. On the other hand the reform of the company old-age pensions and benefits was completed in 1977 so that lower expenses for old-age pensions and benefits accrued in 1978. We have reported extensively on the composition and development of the expenses for staff in the chapter Personnel and Social Report.

Depreciation on tangible fixed assets rose by DM 27.1 million (12.2%) against the previous year. This increase is attributed to the investment volume of the previous year which has only come through in full in the current year, and the large investments made again in the year under review.

The increase in taxes on income, profits and property by DM 132.4 million is mainly attributable to the improved profits.

As in the past the miscellaneous expenses include expenses for administration and distribution warranties, outgoing freight, insurance premiums, incidental personnel costs and services rendered by third parties which did not have to be disclosed in the other items of the statement of income.

The remuneration of the active Members of the Managing Board in the business year 1978 amounted to DM 4,980,225 and former Managing Board Members and their survivors to DM 693,917. The total remuneration of the Supervisory Board in 1978 amounted to DM 480,000.

Balance Sheet Profit

The annual financial statement for the year ending December 31, 1978 was prepared by the Managing Board, approved by the Supervisory Board and thus confirmed, closes with a balance sheet profit of DM 80.64 million. In agreement with the Supervisory Board it is proposed to use this balance sheet profit for a dividend distribution of DM 9 per share of DM 50 nominal value on the DM 396 million common stock entitled to full dividend (equivalent to an 18% distribution), as well as DM 4.50 per share at DM 50 nominal value of the new shares which are entitled to dividends from July 1, 1978 having a total nominal value of DM 104 million (equivalent to a distribution of 9%).

Munich, May 1978

Bayerische Motoren Werke
Aktiengesellschaft

The Managing Board

Balance Sheet of BMW AG at December 31, 1978

with comparative figures for the previous year

Assets

	Jan. 1, 1978	Additions	Transfers	Retire- ments	Depre- ciation	Dec. 31, 1978	Dec. 31, 1977
	DM	DM	DM	DM	DM	DM	DM

I. Fixed and Financial Assets

Tangible and Intangible

Fixed Assets

Real estate and equivalent rights with office, factory and other buildings	313,962,327	19,253,705	+ 29,862,479	1,335,407	18,408,048	343,335,056	313,962,327
Real estate with residential buildings	8,085,473	426,600	+ 4,221	—	354,488	8,161,806	8,085,473
Real estate without buildings	17,236,302	2,942,336	+ 177	1,671,538	135,417	18,371,860	17,236,302
Buildings on land not owned	28,191,889	1,031,205	+ 952,318	33,758	3,024,400	27,117,254	28,191,889
Machinery and equipment	554,528,842	137,666,907	+ 64,280,026	1,220,800	196,579,834	558,675,141	554,528,842
Furniture and fixtures	33,496,501	32,760,535	+ 4,160,901	1,255,987	31,105,536	38,056,414	33,496,501
Construction in progress and advances for fixed assets	140,944,442	110,856,050	— 99,260,122	1,910,327	—	150,630,043	140,944,442
Patents	1	—	—	—	—	1	1
	1,096,445,777	304,937,338	—	7,427,817	249,607,723	1,144,347,575	1,096,445,777

Financial Assets

Investments in participations	95,168,895	5,560,001	—	1,000,000	60,000	99,668,896	95,168,895
Securities	68,241,299	10,500,000	—	5,005,303	822,800	72,913,196	68,241,299
Loans with a minimum term of four years	93,491,494	59,384,288	—	18,710,890	198,137	133,966,755	93,491,494
— thereof secured by mortgages: DM 2,100,979 —							
	256,901,688	75,444,289	—	24,716,193	1,080,937	306,548,847	256,901,688
						1,450,896,422	1,353,347,465

II. Current Assets

Inventories

Raw materials and supplies						151,997,022	153,054,392
Work in progress						84,677,450	100,007,155
Finished products, trading stocks						208,767,148	194,526,311
						445,441,620	447,587,858

Other Current Assets

Advance payments						1,174,150	1,378,473
Trade receivables — thereof with a maturity of more than one year: — DM —						148,398,688	181,126,899
Notes receivable — thereof rediscountable at the Federal Reserve Bank: DM 900,443 —						4,797,855	3,508,726
Cash on hand, deposits at the Federal Reserve Bank and at postal cheque accounts						1,064,652	1,020,389
Cash with banks						160,081,340	150,463,595
Marketable securities						347,203,781	63,368,115
Receivables to subsidiaries						225,441,236	198,832,829
Receivables resulting from loans granted under sec. 89 AktG (Corporation Law)						1,005,360	622,430
Miscellaneous assets						151,626,849	155,061,534
						1,040,793,911	755,382,990
						1,486,235,531	1,202,970,848

III. Prepaid Expenses

						1,250,966	765,321
						2,938,382,919	2,557,083,634

Shareholders' Equity and Liabilities

[illegible]

Statement of Income of BMW AG for the year ended December 31, 1978

with comparative figures for the previous year

Net sales
Increase (decrease) of finished products and work in progress
Other company-produced additions to tangible fixed assets
Total value of production
Expenses for raw materials, supplies and merchandise purchased
Gross income
Income from profit and loss absorption agreements
Income from investments in participations
Income from other financial assets
Other interest and similar income
Gains on retirement of fixed and financial assets
Gains on decrease of allowance for doubtful accounts
Gains on liquidation of provisions
Gains on liquidation of special items containing reserves under sec. 6b EStG (Income Tax Act)
— liquidation of depreciation reserve for fixed assets —
Miscellaneous income — thereof extraordinary income: DM 6,792,945 —
Wages and salaries
Social security contributions
Expenses for old-age pensions and benefits
Depreciation on tangible fixed assets
Write down for financial assets
Losses from depreciation on current assets other than inventories and
transfer to allowance for doubtful accounts
Losses on retirement of fixed assets
Interest and similar expenses
Taxes
on income, profits and property
others
Expenses for profit and loss absorption agreements
Miscellaneous expenses
Net income
Transfer from net income to reserves
Balance sheet profit

Note in accordance with sec. 159, AktG (Corporation Law):
In the business year we paid DM 3,799,553 for old-age pensions;
in addition, a total of DM 1,408,109 was allocated to the BMW benevolent fund.
In the next five years, old-age pension payments will probably amount to 157% of the cited amount in 1979, 182% in 1980, 212% in 1981, 241% in 1982 and 273% in 1983.
In future the BMW benevolent fund will receive no further allocations for new benefits promised.

Bayerische Motoren Werke
Aktiengesellschaft

The Managing Board

	1978		1977
DM	DM	DM	DM
	5,959,244,448		4,993,036,120
	- 17,137,313		+ 51,239,196
	5,942,107,135		5,044,275,316
	12,630,266		18,762,184
	5,954,737,401		5,063,037,500
	2,989,512,540		2,620,856,880
	2,965,224,861		2,442,180,620
	9,847,985		6,458,789
	1,292,805		221,876
	15,685,305		11,220,746
	45,521,921		23,825,183
	2,609,874		7,188,587
	2,706,347		-
	13,036,512		15,161,290
	-		1,045,812
	34,532,872		31,737,853
	125,233,621		96,860,136
	3,090,458,482		2,539,040,756
	1,223,560,337		1,092,777,918
	178,328,082		155,684,004
	37,349,351		102,385,243
	249,607,723		222,513,455
	1,080,937		175,000
	50,324,457		5,864,808
	2,765,880		1,817,795
	61,173,552		50,663,074
374,572,388		242,136,880	
2,499,816	377,072,204	1,919,456	244,056,336
	19,536,185		-
	739,019,774		537,763,123
	2,939,818,482		2,413,700,756
	150,640,000		125,340,000
	70,000,000		60,000,000
	80,640,000		65,340,000

According to our audit, conducted with all due professional diligence, the annual financial statement and the annual report relating thereto comply with all statutory requirements.

Munich, May 10, 1979

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Clemm
Auditor

von Lippmann
Auditor

Consolidated Annual Report

As in the previous year, the BMW consolidated financial statement had to be prepared pursuant to sec. 329 AktG (Corporation Law) and the consolidated annual report pursuant to sec. 334 AktG (Corporation Law).

The scope of consolidation is unchanged compared to the previous year and includes the following companies:

Scope of Consolidation	Common stock DM million	Interest
Bayerische Motoren Werke AG, Munich (BMW AG)	500.00	
BMW Motorrad GmbH, Munich	12.00	100% BMW AG
BMW Motorsport GmbH, Munich	0.02	100% BMW AG
BMW Marine GmbH, Munich	6.00	100% BMW AG
Schorsch Meier GmbH, Munich	0.30	100% BMW AG
BMW Leasing GmbH, Munich	5.00	100% BMW AG
Bavaria Wirtschaftsagentur GmbH, Munich	0.20	100% BMW AG
BMW Maschinenfabrik Spandau GmbH, Berlin	6.00	100% BMW AG
Fahrzeug- und Maschinenfabrik GmbH Landshut, Landshut	0.30	100% Schorsch Meier GmbH
BMW Grundstücksgesellschaft Berlin GmbH, Berlin	0.02	95% BMW AG
Bavaria Verwaltungsgesellschaft mbH, Munich, is not included in the scope of consolidation.	0.02	100% BMW AG

The commercial development of the BMW Concern was decisively influenced during the year under review by the course of business of BMW AG.

In the chapter Subsidiaries the course of business of the other important companies has been reported on.

Notes on the Financial Statement of BMW Concern (Domestic)

Consolidated Balance Sheet

In the consolidated balance sheet (domestic), the balance sheets of BMW AG and the domestic related subsidiaries have been integrated as if these subsidiaries were legally a single entity. Accordingly, the assets and liabilities of the subsidiaries integrated into the consolidated balance sheet replace the parent company's investments in participations and intercompany receivables and liabilities have been omitted.

At the balancing of accounts of the balance sheet values of the investments in participations with the common stock and the reserves of the subsidiaries, a consolidation reserve of DM 15.9 million results, unchanged compared with the previous year. This amount derives from the difference between reserves accrued by the subsidiaries and the share premiums paid to related companies by the purchase of shares. The difference in the balancing of accounts has the character of reserves and has been shown as consolidation reserve.

Assets and liabilities have been entered as in the individual financial statements. Intercompany profits included in the inventories have been eliminated.

The tangible fixed assets comprise chiefly those of BMW AG, BMW Maschinenfabrik Spandau GmbH, BMW Motorrad GmbH, and BMW Leasing GmbH.

The difference between the inventories of BMW AG and that of the BMW Concern comprise chiefly the inventories of BMW Motorrad GmbH, BMW Motorsport GmbH and Schorsch Meier GmbH. The deferred income in the consolidated balance sheet can mainly be attributed to the disclosure of a type of financing customary in the leasing business at BMW Leasing GmbH. The other items in the consolidated balance sheet are mainly determined by BMW AG. The corresponding notes are referred to in the annual report of the parent company.

Consolidated Statement of Income

In the consolidated statement of income, the statements of income of the subsidiaries included in the consolidated financial statement have been integrated by first adding income and expenses and then deducting the items of intercompany sales included therein. The content of the consolidated statement of income therefore corresponds to the statement of income which would have had to be prepared if the companies included in the consolidated financial statement were legally a single entity. It has been marshalled in accordance with sec. 333 AktG (Corporation Law). The consolidated net income of DM 152.4 million exceeds the DM 150.6 million net income of BMW AG by 1.8 million. This concerns income from consolidated companies not distributed to the parent company, offset with additions to eliminations to intercompany profits mainly for inventories of Schorsch Meier GmbH, Munich.

Consolidated Balance Sheet at December 31, 1978

with comparative figures for the previous year

Assets

	Dec. 31, 1978 DM	Dec. 31, 1977 DM
I. Fixed and Financial Assets		
Tangible and Intangible Fixed Assets		
Real estate and equivalent rights with office, factory and other buildings	358,951,640	329,342,494
Real estate with residential buildings	8,161,806	8,085,473
Real estate without buildings	18,371,860	17,236,302
Buildings on land not owned	27,959,044	28,911,134
Machinery and equipment	569,330,633	562,109,863
Furniture and fixtures	125,965,456	102,450,801
Construction in progress and advances for fixed assets	155,114,215	144,750,694
Patents	1	1
	1,263,854,655	1,192,886,762
Financial Assets		
Investments in participations	47,462,213	48,461,726
Securities	72,913,196	68,241,299
Loans with a minimum term of four years	134,259,119	93,499,255
— thereof secured by mortgages: DM 2,100,979 —		
	254,634,528	210,202,280
	1,518,489,183	1,403,089,042
II. Current Assets		
Inventories		
Raw materials and supplies	169,174,566	166,805,468
Work in progress	95,432,939	108,646,349
Finished products, trading stocks	239,335,345	215,010,741
	503,942,850	490,462,558
Other current Assets		
Advance payments	1,240,455	1,502,880
Trade receivables — thereof with a maturity of more than one year: — DM —	180,710,838	215,871,226
Notes receivable — thereof rediscountable at the Federal Reserve Bank: DM 900,443 —	9,683,021	4,477,459
Cash on hand, deposits at the Federal Reserve Bank and at postal cheque accounts	1,426,944	1,305,886
Cash with banks	179,216,500	158,633,122
Marketable securities	372,703,781	63,368,115
Receivables to subsidiaries	163,959,142	148,346,156
Receivables resulting from loans granted under sec. 89 AktG (Corporation Law)	1,005,360	622,430
Miscellaneous assets	166,680,298	162,864,550
	1,076,626,339	756,991,824
	1,580,569,189	1,247,454,382
III. Prepaid Expenses	1,579,805	997,988
	3,100,638,177	2,651,541,412

Shareholders' Equity and Liabilities

		Dec. 31, 1978	Dec. 31, 1977
	DM	DM	DM
I. Common Stock		500,000,000	396,000,000
II. Reserves			
Legal reserves		127,083,250	77,311,250
Other reserves			
Retained earnings	314,188,750		
Transfer from 1978 net income	70,000,000	384,188,750	314,188,750
		511,272,000	391,500,000
III. Consolidation Reserve		15,926,285	15,926,285
IV. Minority Interests		6,446	4,201
– thereof net income share: DM 5,446 –			
V. Allowance for Doubtful Accounts		6,918,238	9,709,522
VI. Pension Fund Provisions and Liabilities			
Pension fund provisions		266,760,875	232,504,558
Liabilities to BMW benevolent fund		39,372,000	39,680,000
		306,132,875	272,184,558
VII. Other Provisions			
Provisions for deferred maintenance		16,012,000	8,510,000
Miscellaneous provisions		687,217,505	486,385,631
		703,229,505	494,895,631
VIII. Liabilities with a Term Exceeding Four Years			
Loans – thereof secured by mortgages: DM 58,000,000 –		104,272,000	110,512,000
Due to banks		283,626,956	323,708,885
– thereof secured by mortgages: DM 23,468,970 –			
Miscellaneous liabilities		29,466,994	22,510,004
Of item VIII. due in less than four years:			
		417,365,950	456,730,889
IX. Other Liabilities			
Trade payables		351,173,326	340,413,307
Advance payments received		5,591,056	4,622,958
Liabilities to subsidiaries		22,260,730	74,646,941
Miscellaneous liabilities		127,647,369	108,572,231
		506,672,481	528,255,437
X. Deferred Income		46,761,419	17,054,932
XI. Consolidated Balance Sheet Profit		86,352,978	69,279,957
		1978	1977
		DM	DM
Contingent liabilities on rediscounted notes receivable			
– thereof notes receivable from subsidiaries: DM – –	58,773,397	64,086,598	
Guarantees – thereof for subsidiaries: DM 50,738,854 –	50,738,854	20,268,003	
Joint and several guarantee for sfr-bond			
of BMW Overseas Enterprises N. V., Curaçao	112,720,000	105,120,000	
Contingent liabilities under warranty contracts	6,531,433	3,035,847	
– thereof in favor of subsidiaries: DM – –			
Mortgages for liabilities of others	150,000	450,000	
		3,100,638,177	2,651,541,412

Consolidated Statement of Income for the year ended December 31, 1978

with comparative figures for the previous year

External sales

Expenses, not disclosed separately, after adjustment
with change in inventories and capitalized expenses

Income from investments in unconsolidated
participations

Income from other financial assets

Other interest and similar income

Gains on liquidation of provisions

Miscellaneous income

Depreciation on tangible fixed assets

Write down for financial assets

Interest and similar expenses

Taxes

on income, profits and property

others

Net income

Profit transfer brought forward from net income from previous year

Transfer to reserves

Minority interests in consolidated participations' net income

Consolidated balance sheet profit

Bayerische Motoren Werke
Aktiengesellschaft

The Managing Board

	1978		1977
DM	DM	DM	DM
	6,184,467,427		5,223,244,867
	5,408,390,823		4,642,447,071
	776,076,604		580,797,796
	1,297,117		221,876
	15,685,305		11,220,746
	43,098,722		22,417,536
	14,447,288		16,002,163
	53,519,731		49,324,610
	128,048,163		99,186,931
	904,124,767		679,984,727
	306,531,836		255,053,903
	1,080,937		175,000
	62,421,235		49,777,419
378,022,224		244,863,123	
3,653,538	381,675,762	2,459,192	247,322,315
	751,709,770		552,328,637
	152,414,997		127,656,090
	3,943,427		1,627,068
	70,000,000		60,000,000
	5,446		3,201
	86,352,978		69,279,957

According to our audit, conducted with all due professional diligence, the annual financial statement and the annual report relating thereto comply with all statutory requirements.

Munich, May 10, 1979

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Saur
Auditor

von Lippmann
Auditor

BMW AG

Ten Year Survey

		1969	1970	1971
Sales ¹⁾	DM million	1,443.4	1,724.4	1,907.1
Increase (decrease)	%	+39.8	+19.5	+10.6
Export share	%	40.6	36.1	40.8
Output cars	units	147,841	161,165	164,701
Output motorbikes	units	4,701	12,287	18,772
Car sales	units	144,788	158,850	166,354
Motorbike sales	units	4,630	12,346	18,898
Investments in tangible fixed assets	DM million	206.8	211.2	153.6
Additions to investments in participations	DM million	0.1	0.1	1.5
Depreciation on tangible fixed assets	DM million	76.7	99.8	112.7
Personnel at end of year		21,316	22,913	23,307
Wage earners		15,952	16,874	17,051
Salaried employees		4,653	5,222	5,336
Fixed assets	DM million	445.4	558.2	598.2
Current assets	DM million	348.9	440.4	455.8
Common stock	DM million	100.0	200.0	250.0
Reserves (until 1976 including special items containing reserves)	DM million	141.4	150.4	204.3
Shareholders' equity	DM million	241.4	350.4	454.3
as % of fixed assets	%	54.2	62.8	75.9
Long term liabilities ⁴⁾	DM million	247.0	253.9	313.0
Shareholders' equity and long-term liabilities	DM million	488.4	604.3	767.3
as % of fixed assets	%	109.7	108.3	128.3
Balance sheet total	DM million	794.3	998.6	1,054.0
Material expenses	DM million	794.2	944.2	1,028.3
as % of total value of production	%	53.5	53.5	54.0
Personnel expenses ⁵⁾	DM million	310.9	403.0	451.8
as % of total value of production	%	21.0	22.8	23.7
Taxes on income, profits and property	DM million	60.8	45.2	39.7
Net income	DM million	45.7	34.2	32.2
Dividends	DM million	16.0	24.0	27.0
Dividend in %	%	12+4	12	12

¹⁾ without value added tax

²⁾ offset against retirements

³⁾ including profit on merger with Schorsch Meier Vermögensverwaltung GmbH, Dingolfing

⁴⁾ Pension fund provisions, liabilities to BMW benevolent fund, liabilities with a term exceeding four years

⁵⁾ Wages and salaries, social security contributions, expenses for old-age pensions and benefits

⁶⁾ Proposal of the Management (the dividend per new share of DM 50 nominal – with dividend entitlement from July 1, 1978 – is DM 4.50 (9%))

1972	1973	1974	1975	1976	1977	1978
2,319.3	2,608.0	2,492.3	3,254.5	4,287.0	4,993.0	5,959.2
+21.6	+12.5	-4.4	+30.6	+31.7	+16.5	+19.4
42.9	46.2	46.6	40.7	47.3	47.0	47.6
182,858	197,446	188,965	221,298	275,022	290,236	320,853
21,122	20,856	23,160	25,566	28,209	31,515	29,580
185,188	193,978	184,330	226,688	275,596	288,260	321,196
21,045	19,918	25,189	25,553	28,171	31,231	26,592
250.3	250.0	159.4	167.3	320.8	335.1	304.9
5.3	9.6	6.4	47.0	32.4	3.4 ²⁾	4.5 ²⁾
123.4	128.2	139.4	142.8	160.5	222.5	249.6
24,750	27,737	25,805	28,989	30,192	33,398	35,171
17,945	20,079	18,338	21,043	21,554	23,804	24,815
5,769	6,522	6,385	6,590	6,979	7,786	8,408
720.5	884.6	903.3	986.0	1,216.7	1,353.4 ^{*)}	1,450.9
562.6	681.0	589.7	710.3	981.4	1,203.7	1,487.5
250.0	275.0	300.0	300.0	330.0	396.0	500.0
255.9 ³⁾	273.2	284.7	303.6	365.6	391.5 ^{*)}	511.3
505.9 ³⁾	548.2	584.7	603.6	695.6	787.5 ^{*)}	1,011.3
70.2 ³⁾	62.0	64.7	61.2	57.2	58.2 ^{*)}	69.7
311.2	399.6	402.5	520.5	582.2	711.7	694.2
817.1 ³⁾	947.8	987.2	1,124.1	1,277.8	1,499.2 ^{*)}	1,705.5
113.4 ³⁾	107.1	109.3	114.0	105.0	110.8 ^{*)}	117.5
1,283.7	1,566.1	1,493.7	1,697.2	2,198.1	2,557.1 ^{*)}	2,938.4
1,176.4	1,363.4	1,356.2	1,709.3	2,213.1	2,620.9	2,989.5
50.6	50.8	53.9	52.8	51.5	51.8	50.2
539.6	678.0	728.0	902.7	1,135.6	1,350.8	1,439.2
23.2	25.2	29.0	27.9	26.4	26.7	24.2
147.7	153.5	22.7	84.4	200.5	242.2	374.6
92.9	93.2	42.0	74.0	126.0	125.3	150.6
40.0	49.5	42.0	54.0	63.0	65.3	80.6 ⁶⁾
16	18	14	18	20	18	18 ⁶⁾

*) The statements for the years 1969–1976 correspond to the annual report of the previous year; the 1977 figures have been adjusted to the annual financial statement of 1978.

Supervisory Board

Dr. h. c. Herbert Quandt
Bad Homburg v. d. H.
Chairman

Hans Graf von der Goltz
Bad Homburg v. d. H.
Deputy Chairman
Chairman of the Managing Board
of Varta AG

Kurt Golda *
Gronsdorf
Chairman of the Labor Council
of BMW AG

Eberhard von Heusinger
Bad Homburg v. d. H.
since June 27, 1978
Member of the Managing Board
of Varta AG

Joachim-Hans von Hinckeldey
Grünwald bei München
Banker

Karl Theodor Jacob
Berchtesgaden
until June 27, 1978
President of the Bayerische
Landesbank, Girozentrale, ret'd.

Erhardt Klausnitzer *
München
Member of the Labor Council
BMW AG, Munich plant

Hans-Jürgen Koppenberg
München
until June 27, 1978
Attorney at law

Dr. Guido G. Sandler
Bielefeld
since June 27, 1978
Chairman of the Managing Board
of the Dr. August Oetker company

Dr. Werner Uhde
München
until June 27, 1978
Businessman

Johann Vilsmeier *
Frauenbiburg
Chairman of the Labor Council
of BMW AG, Dingolfing plant

Dr. Kurt Wessing
Düsseldorf
since June 27, 1978
Attorney at law

* elected by the employees

Managing Board

Eberhard v. Kuenheim
Chairman

Dr. Erich Haiber
Finance

Hans Koch
Production

Dr. Karlheinz Radermacher
Research and Development

Dr. Eberhardt C. Sarfert
Personnel and Social Administration

Dr. Helmut Schäfer
Purchasing and Logistics

Hans-Erdmann Schönbeck
Marketing

Director General:
Dr. Günter Kramer
Chief Corporation Lawyer

BMW AG

Published by:
Bayerische Motoren Werke
Aktiengesellschaft
Petuelring 130
8000 München 40

BMW AG

